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Update

IRS rules help employers pass 401(k) non-discrimination tests

WASHINGTON—Recent Internal Revenue Service rules will enable highly compensated employees to contribute more to 401(k) plans and decrease the chances that the plans will flunk non-discrimination tests, consultants say.

Benefit consultants last week told clients that IRS pension non-discrimination rules permit companies to "restructure" 401(k) plans into separate "components."

Continued on next page

No sudden turn in sight

Rates inadequate despite some hikes

By MARK A. HOFMANN and CHRISTINE WOOLSEY

Property/casualty insurers are trying to crawl out of the soft market by inching up rates for many risks, though rates remain flat or continue to drop for others.

Insurers say they are continuing to increase rates gradually to avoid massive market disruptions and policyholder outrage.

Insurers say

While rates remain flat for some risks, insurers say that they are seeking—and generally getting—increases of 5% to 10% for many risks.

In fact, some insurers say they will walk away from business if they cannot get those increases.

Others, however, report that property rates, although no longer in the free fall of two years ago, are still dropping.

Overall, rates remain inadequate, making future hikes necessary, insurers say.

Insurers point out that the soft market is being buoyed

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1990 MIDYEAR RENEWALS

Competition not yet thing of the past

By LINDA J. COLLINS and LOUISE KERTESZ

Competition is still the way of life for most commercial property/casualty insurers, retail insurance brokers report.

Capacity remains plentiful and premium rates, in general, are flat to down slightly for most lines of coverage at mid-year, brokers report.

Brokers say

The one major exception, the brokers add, is workers compensation insurance, where rates are rising for nearly all types of accounts.

The market is "stabilizing. Overall, rates are down, but the reductions are not as great as in the past and there are a greater number of 'as-is' renewals," said Lawrence L. Drake, managing director of New York-based Marsh & McLennan Inc., the retail brokerage arm of Marsh & McLennan Cos. Inc.

"It looks like rates are down again after 'plateauing'

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Risk managers see low rates, except for D&O

By MICHAEL BRADFORD and SAM CRISTY

Risk managers completing summer renewals say they are finding plenty of capacity and favorable prices.

Risk managers say

Little has changed in the commercial property/casualty insurance marketplace since 1989 renewals, with property prices remaining particularly soft, insurance buyers report.

And, as the soft market lingers, some risk managers are seeking lower rates or concessions from insurers on terms and conditions.

However, the cost of directors and officers liability insurance is creeping up for some risks.

Jeff Thrutchley, insurance manager at John H. Harland Co.—a Decatur, Ga.-based publisher of checks and other financial forms—said his company's D&O costs would likely rise 7% to 10% this year.

Additional renewal stories appear on pages 40, 42, 47 and 51.

Limits will remain at $25 million and the coverage is being renewed with Chubb Corp., according to Mr. Thrutchley.

"We're on the front end of what we perceive to be a hard market," he said, referring to the increase in D&O insurance costs. The company has never filed a D&O claim under the coverage, he noted.

Harland, he adds, is interested in structuring its D&O program on a multiyear contract but has been unable to work out such an arrangement with Chubb.

"The marketplace has more or less stabilized," says Garry Pew, assistant treasurer and director of risk management at Pacific Enterprises, a Los Angeles holding company that renews its D&O coverage in August.

Rates appear to be holding steady and "we don't see any change in capacity," Mr. Pew said, noting he will renew the same D&O limits in August.

Pacific Enterprises was able to renew more than $1 billion in property coverage in June at about the

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FASB delays retiree health care rules

By JERRY GEISEL

NORWALK, Conn.—The Financial Accounting Standards Board's decision last week to delay the effective date of proposed retiree health care liability accounting rules gives employers badly needed time to prepare for the enormous hit to their financial statements.

But employers should not interpret the one-year delay in the effective date as a signal that FASB will withdraw or significantly weaken the rules, experts point out.

Beginning in 1993, rather than 1992, companies will have to recognize retiree health care liabilities on their financial statements as they are accrued rather than as paid.

FASB also agreed last week to several changes involving the so-called transition obligation governing accounting for retiree health care liabilities existing when the rules take effect. Companies will have slightly longer to amortize such liabilities and will have the option of taking a one-time charge to earnings in 1993 for these liabilities.

A FASB spokeswoman said the board agreed to delay the effective date of the rules to give companies more time to accumulate data needed to comply.

The delay reflects the recognition of the practical problems employers have had in collecting and analyzing retiree health care data, such as claims costs, rather than a sign that the board's resolve is weakening, experts agree.

"This was a pragmatic decision. Companies have been having incredible difficulties in data collection and the measurement process. FASB recognizes this," said Steve Ferruggia, director of Buck Consultants Inc.'s group actuarial practice in Secaucus, N.J.

But, Mr. Ferruggia adds: "FASB's commitment to accrual accounting has not wavered. FASB is not doubting the wisdom of requiring accrual accounting for retiree health care liabilities."

The delay is a "response to the input it received from employers. But FASB is still unanimous in its support of the principle of accrual accounting" for retiree health care liabilities, said Bruce Vander Els, an A. Foster Higgins & Co. Inc. consultant in Princeton, N.J.

Many employers certainly need the additional compliance time that FASB is providing.

A soon-to-be released Foster Higgins survey found that 52% of employers that provide retiree health benefits have not yet determined their financial liability for these costs.

The one-year reprieve not only gives companies additional time to comply with the rules but also time

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Wisconsin Supreme Court grants cleanup coverage Page 2

Lloyd's expects to post loss in 1989 accounting year Page 3

Florida work comp rates to be reduced by 25% Page 3

Update

401(k) test liberalized

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Employees who make small or no 401(k) contributions, such as non-highly compensated or hourly employees at one corporate unit, could be placed into one component. All other employees could be put in a separate component 401(k) plan. This would be allowed as long as the percentage of non-highly compensated employees covered by a plan is 70% of the percentage of highly compensated employees covered by the plan.

Because employees who tend to make low contributions would be grouped in one component, they would not drag down permitted contributions of highly compensated employees for purposes of passing the IRS average deferral percentage test. That test compares contributions to a 401(k) plan by highly compensated employees to contribution by lower-paid employees.

An IRS attorney said such restructuring would be allowed as long as the component plans were not established solely on the basis of employee contribution rates. The IRS would not object if the restructuring was done on the basis of job category or type of compensation, such as hourly vs. salaried employees.

"Many companies are interested in taking a look at this approach. It is a win-win situation," said John Hoos, a national practice leader with Hewitt Associates in Lincolnshire, Ill.

Dai-ichi invests in U.S. insurer

FORT WAYNE, Ind.—Dai-ichi Mutual Life Insurance Co., Japan's second-largest life insurer, is set to acquire 9.6% of Lincoln National Corp. for $312 million in the first substantive U.S. insurance investment by a Japanese firm.

Through a joint management committee, the firms say they plan to develop reciprocal relationships in investment management, reinsurance and pension and group health insurance products.

The deal, which took several months to negotiate, will let Lincoln National "raise capital on a very attractive basis" and give the insurer "an opportunity to form some strategic alliances," a spokesman said. The two firms have had dealings since 1987, when Lincoln National entered into a retrocessional agreement with Dai-ichi, he said.

Dai-ichi initially would purchase 5% of the Fort Wayne, Ind.-based insurer through a convertible preferred stock issuance. Within a year, it would buy an additional 4.6% through another issuance. Regulatory approval is expected within a few days.

The proposed deal would allow Lincoln National "to strengthen its equity capital position at very attractive rates," said Gary Parr, managing director of investment banker Wasserstein Perella & Co. in New York. Even though the insurer already is well capitalized, the better capitalized an insurer is in the 1990s, the better it will be able to compete, he said.

Passive smoke health risk: EPA

WASHINGTON—The U.S. Environmental Protection Agency is proposing to classify tobacco smoke as a known cancer-causing agent and recommends that employers eliminate involuntary exposure to tobacco smoke in the work environment wherever possible.

In the EPA's preliminary reports on the health effects of passive smoking issued last week, the agency estimates that secondhand smoke has caused the deaths of 2,550 people who never smoked and the deaths of 1,250 former smokers.

The Scientific Advisory Board, an independent panel of scientists that evaluates EPA reports, will examine the EPA reports and comment on the scientific methods used and the agency's conclusions and recommendations.

The EPA will then review the SAB's remarks before it issues its final report and recommendations on eliminating passive smoke in the workplace.

However, The Tobacco Institute in Washington, D.C., plans to challenge before the SAB each of the 21 studies used by the EPA to substantiate its findings.

A spokesman said the EPA's methodologies were "very flawed."

Single E.C. insurance market

LONDON—Corporations now can buy insurance across the borders of several European Community nations following the enactment Monday of the second non-life insurance directive in eight of 12 E.C. countries.

The directive, passed in June 1988, gave the eight nations until July 1 to modify national laws to allow large risks to purchase coverage from companies in other E.C. countries. Spain, Portugal, Greece and Ireland have until at least 1992 to make such changes.

However, only four of the eight countries have so far passed enabling legislation: West Germany, The Netherlands, Denmark and France, according to Tony O'Dowd, assistant manager of Lloyd's of London's international department.

Legislation is expected to be approved this week in the United Kingdom and soon in Belgium, he said. It appears Italy and Luxembourg will be late in passing enabling legislation, he added.

Meanwhile, the E.C. Commission has not responded to insurers' request for permission to sell coverage immediately throughout the eight nations directed to pass such legislation by July 1.

Oil spill liability agreement

WASHINGTON—Congress is expected to pass an oil spill liability bill this year, as House-Senate conferees agreed last week to allow states to supersede a proposed federal limit on ship and cargo owners' liability.

Inability to resolve state and federal authority over those limits had delayed approval of the bill. Some House members and the Bush

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Errors and omissions

• Frank B. Hall & Co. Inc.'s branch offices were omitted from the geographical listing of agents and brokers in the June 18 issue. A list of Hall's offices appears on page 60.

Wisconsin high court grants cleanup cover

By STACY ADLER

MADISON, Wis.—The pollution exclusion clause in comprehensive general liability policies does not bar coverage for hazardous waste cleanups based on the exclusion's drafting history, the Wisconsin Supreme Court has ruled.

The June 19 ruling marks the second time a state supreme court has cited the exclusion's drafting history in ruling in favor of policyholders on this critical issue.

In June 1989, the Georgia Supreme Court ruled 4-2 that the pollution exclusion does not bar coverage for hazardous waste cleanups (*BI*, July 3, 1989).

Of the five state supreme courts that have interpreted the pollution exclusion, three have sided with insurers: North Carolina, Massachusettes and New York.

In overturning a lower court ruling, the Wisconsin court ruled 6-1 that the clause, which bars coverage for all pollution that is not "sudden and accidental," is ambiguous and therefore does not bar coverage for gradual pollution that is unexpected or unintended.

Attorneys predict this decision, which includes a detailed description of the exclusion's drafting history, will prompt other courts to also consider the origins of the pollution exclusion.

"The pollution exclusion has been the subject of extensive litigation throughout the country, but the two courts that have examined the historical development of this provision have concluded that it does not bar coverage for gradual damages," said Thomas Rozinski of Anderson, Kill, Olick & Oshinsky in New York, which filed an amicus curiae brief in the case.

The Wisconsin decision stems from a dispute between Land Reclamation Ltd., a landfill operator in Racine, Wis., and its primary general liability insurer, Bituminous Casualty Corp., a Rock Island, Ill.-based subsidiary of Old Republic General Insurance Group Inc.

Bituminous wrote primary and umbrella coverage for Land Reclamation from 1971 to 1986. Policy limits varied from $250,000 to $5 million annually.

In 1987, 120 property owners living near a Racine landfill sued the landfill operators for $9.6 million, alleging they violated state environmental laws. Residents charge that the resulting pollution caused water contamination, noise, dust, odors and blowing garbage, all of which reduced property values.

After initially agreeing to defend the operator, Bituminous later denied any duty to defend, saying coverage was excluded for gradual pollution claims.

But, Land Reclamation argued that Bituminous was obligated to

Continued on page 19

Doubts over futures linger

By JUDY GREENWALD

CHICAGO—Insurance industry observers remain skeptical about the viability of futures contracts for health and automobile collision insurance proposed by the Chicago Board of Trade, despite new details the exchange released about its proposals.

The CBOT last week submitted two proposed reinsurance futures contracts to the Commodity Futures Trading Commission for review. Securing the needed approval of the federal agency is expected to take at least two months, said an exchange spokesman.

The spokesman said he did not know how soon trading would begin if the contracts are approved.

Meanwhile, a movement is brewing to make the reinsurance futures contracts, if approved, available internationally.

The CBOT, which says it plans to invest $1 million in the project, announced in May its plan to sell reinsurance futures (*BI*, May 21).

Futures contracts are agreements to buy or sell a commodity or financial instrument at a particular price on a stipulated date. They are used to protect against price fluctuations by locking in prices.

Several insurers have expressed "an awful lot of interest" in the contracts, said the CBOT spokesman, who would not identify the companies.

CBOT officials say the contracts are designed to allow insurers to hedge their underwriting experience.

Under the CBOT proposal, approved insurance companies would buy contracts that would effectively provide reinsurance coverage for a basket of similar policies. Contracts would be backed by certificates whose values are based on the difference between premiums collected and claims paid over the life of those policies.

A "central custodian" appointed by the exchange would monitor policyholders' experience and disseminate this information to the marketplace. Trading prices for the contracts would be based on this information.

Trading would end shortly after the policies expire and four months later losses and premiums would be tallied.

If losses exceed premiums, certificate holders pay the insurers the difference.

If premiums exceed losses, insurers would pay the certificate holders the difference.

Questions remain about the contracts. For example, it is not known how state insurance regulations would apply.

A spokesman for the National Assn. of Insurance Commissioners said regulators have not seen the CBOT proposals.

"It's still so early, I just can't comment on the proposal, but certainly state solvency statutes would come into play here," the NAIC spokesman said.

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Reinsurers to be listed

Business Insurance will publish its second annual directory of the world's largest reinsurance companies in the Sept. 3 issue, which will also include a chart ranking the largest reinsurers based on their worldwide consolidated reinsurance premiums.

There is no charge to be listed in the directory of worldwide reinsurers; however, companies that wish to be included must fill out and return a questionnaire provided by *Business Insurance*.

If your company's consolidated worldwide net reinsurance premium volume (both property/casualty and life/health) exceeds $300 million and you have not yet received a questionnaire, please request one by calling Sara Harty, Editorial Assistant: phone, 312-280-3195; or fax, 312-280-3174.

The deadline for completed questionnaires is July 23.

Inside

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- Enrollment in open-ended HMOs outstrips growth in traditional HMOs, a new survey reports. **PAGE 14**
- In Ask a Casualty Actuary, Coopers & Lybrand's Richard E. Sherman looks at the NCCI's new work comp experience rating formula. **PAGE 35**
- Australian ceding companies report soaring catastrophe reinsurance costs, yet some question whether competition Down Under will slow. **PAGE 55**
- Spanish insurance companies are being targeted by French and Italian insurers for acquisitions and expansion. **PAGE 55**
- Investors may pressure insurers to shed junk bond holdings and improve the quality of their assets, predicts analyst Myron Picoult. **PAGE 63**

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Lloyd's profits heading down

'87 results fall; loss seen for '89

By STACY SHAPIRO

LONDON—Lloyd's of London expects to post an overall loss for the 1989 underwriting year when it closes its 1989 accounts two years from now, Chairman Murray Lawrence says.

It would be Lloyd's first overall loss since 1967.

In addition, the market announced last week that profits from the 1987 underwriting year, which just closed under its three-year accounting system, fell 21.6% from the record level in 1986 (see chart).

Disasters in 1989—including Hurricane Hugo, the California earthquake, the explosion at a Phillips Petroleum Co. plant in Texas and the Exxon Valdez oil spill—occurred when property/casualty rates were low, Mr. Lawrence pointed out.

Worldwide catastrophe losses between July 1989 and July 1990 total up to $18 billion, according to David Robertson, chairman of Lloyd's Underwriters Non-Marine Assn. He did not say what percentage of these losses Lloyd's would pay.

As a result of these losses, the market could end the 1989 accounting year in the red. "1989, as you are all aware, had a very high level of major catastrophes and it's possible, although it's difficult to tell at this moment, the market may make an overall loss in that year," Mr. Lawrence said.

Results in 1990 should be better than 1989's, but the year "did not start encouragingly," he said, alluding to the European windstorms that could cost insurers $8 billion.

Mr. Lawrence adds that there are signs rates may harden, which would bring more premium back to the market.

"The prospects of the future are mixed," he said. "The signs are that the market is responding to recent events with a hardening of rates although many areas and classes of business are still experiencing weak rates. The future depends largely on what will happen in the reinsurance market and the capacity of that market and the terms and conditions on which it's willing to write business."

An overall loss in 1989 would be Lloyd's first in 22 years.

A 37.9 million pound loss ($91 million at applicable exchange rates) was posted when Hurricane Betsy devastated the worldwide insurance markets in 1965. Lloyd's then had only 5,800 members, says a spokesman.

Lloyd's paid 100 million pounds ($240 million) in Hurricane Betsy claims at a time when "rates were so low that we would have posted a loss anyway," he said.

Two more losses followed. A 18.6 million pound ($44.6 million) loss in 1966 was followed a year later by a 1.6 million pound ($3.8 million) loss before the exchange returned to profitability, the spokesman added.

Mr. Lawrence announced his forecast last week at the annual general meeting where the exchange announces its global results.

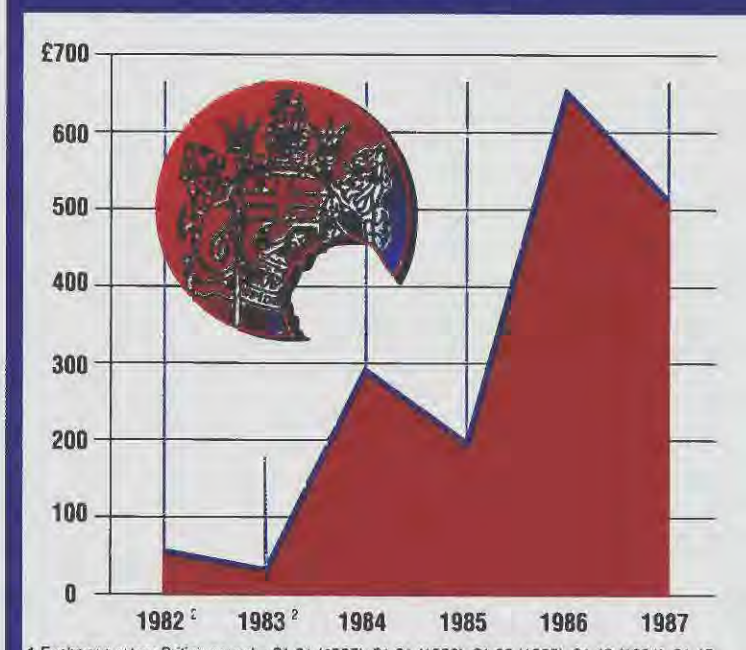
In the past, Lloyd's has not announced its results until September after audited results were submitted to the British Department of Trade and Industry.

The DTI returns must be broken down into seven classes of business, which is how Lloyd's has published its results in the past.

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Lloyd's profits tumble

Lloyd's of London's global profits fell 21.6% to 509.2 million pounds ($819.7 million) in 1987 from a record 649.5 million pounds ($1.18 billion) in1986[1].



1 Exchange rates: British pound = $1.61 (1987); $1.81 (1986); $1.88 (1985); $1.48 (1984); $1.45 (1983); $1.16 (1982)

2 Net of taxes on investment income but before deducting profit commissions

BI/JOHN SMITHER

Florida to roll back comp rates by 25%

By MICHAEL BRADFORD

TALLAHASSEE, Fla.—Workers compensation insurance rates in Florida will be rolled back 25% later this summer while benefits under Florida's wage-loss system will be reduced immediately under a sweeping new law signed by Gov. Bob Martinez last week.

The Comprehensive Economic Development Act of 1990, which took effect Sunday, is designed to save employers and workers compensation insurers up to $1 billion through year-end 1991.

Under the 300-page law, rates must be rolled back beginning Sept. 1 for workers comp insurance written by commercial insurers and multiple-employer self-insurance funds.

The 25% will be sliced from the manual rates effective Jan. 1, 1990. An experience modifier will then be applied to determine the cost of coverage for each employer.

Any discounts or deviations in place on that date must be discontinued.

Those rates must stay in effect until Jan. 1, 1992, after which the National Council on Compensation Insurance can file for new rates.

The rollback also applies to employers that buy workers compensation coverage through the state's Assigned Risk Plan.

However, workers comp insurers have been discounting manual rates 10% to 15% for many employers with good experience, so the rate rollback will have less effect on those employers than others.

The new law also establishes a sliding scale of wage-loss benefits and reduces the amount of those benefits.

In addition, the law creates another step within the workers compensation system before work comp benefit payments can be appealed to the state courts.

The new law creates a five-member Industrial Relations Commission that will serve as an appellate body to review claims that are appealed after a hearing by a state compensation judge.

After the IRC rules on a claim, either party could still appeal to the state's 1st District Court of Appeals.

And, the new law also calls for establishing a fee schedule to be used in reimbursing health care providers treating injured workers.

Except for the rate rollback, all provisions of the law also apply to Florida employers that individually self-insure their workers comp risks.

Florida's workers comp system had reached a crisis state, marked by excessive litigation and high costs. Employers in the state were hit in January with a 36.7% increase in rates. Those in the Assigned Risk Plan saw rates go up an average 63.3% (*BI*, Nov. 20, 1989).

The state's previous workers comp law was set to expire next year under a sunset provision.

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More employers tailoring benefits to meet family needs

By DEBORAH SHALOWITZ

Employers increasingly are offering benefits tailored to meet employees' work and family needs, with child care assistance and flexible scheduling programs among the most popular, according to a new survey.

And, while such work and family benefits as elder care assistance and parental and medical leave are offered less frequently, they may become more popular, said a consultant who specializes in work and family issues.

Work and family benefits are "increasing dramatically," said Linda Foster, a consultant with Lincolnshire, Ill.-based Hewitt Associates. There is a "trend of real interest in it—particularly from top management."

For example, Hewitt's survey of 259 major employers in May found that 56% offered some kind of child care assistance benefit to their employees.

The survey, "Work and Family Benefits Provided by Major U.S. Employers in 1990," will be included in Hewitt's 1990-91 SpecBook detailing the benefit plans of more than 900 major employers. The SpecBook is expected to be published this fall.

The most popular child care assistance benefit—offered by 47% of employers—was pretax dependent care spending accounts, the survey found.

Dependent care accounts are a "simple way" of offering workers child care assistance benefits, Ms. Foster pointed out.

Child care resource and referral services were offered by 29% of respondents, which primarily contracted with an outside provider, the survey found. This benefit typically is offered by bigger companies, Ms. Foster noted.

And, 9% of respondents sponsored child care centers, the survey

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Insurer not liable for self-insured plan: Court

TPAs hail Medicare ruling

By MICHAEL SCHACHNER

CHATTANOOGA, Tenn.—The federal government cannot recover funds from an insurer that was only administering a self-insured employer group health plan to which Medicare made improper payments for older workers and their spouses, confirms another U.S. District Court judge.

Judge R. Allan Edgar of the U.S. District Court for the Eastern District of Tennessee last month also ruled in suits by Provident Life & Accident Insurance Co. and the U.S. government that federal rules completed last November governing Medicare secondary payments allow federal authorities to pursue repayment when Provident was acting as an insurer and should have been, but was not, the primary payer of claims.

But Judge Edgar set aside federal regulations in ruling that the insurer does not have to reimburse the government for improper duplicate Medicare payments if Provident had paid the primary portion of a claim.

The ruling stems from 1989 lawsuits by Provident and the government in federal courts in Chattanooga, Tenn., and Washington, D.C., seeking declaratory judgment on which one was responsible for the claims (*BI*, April 17, 1989). The suits were consolidated in Tennessee.

Judge Edgar's June 14 decision closely mirrors a January pre-trial ruling in a similar government action against Blue Cross & Blue Shield of Michigan.

In that case, Judge George E. Woods of the U.S. District Court for the Eastern District of Michigan in Detroit ruled that the Blues did not have to reimburse the government for Medicare overpayments made on behalf of beneficiaries covered by self-insured plans administered by the Blues.

However, Judge Woods found the Blues were liable for not paying under plans that it insured (*BI*, Jan. 15).

Both rulings are viewed as victories for third-party administrators, which had been labeled as one of several sources that could be tapped to recoup billions of dollars that federal officials say Medicare has mistakenly paid for health care for older workers and their spouses.

Under a series of federal laws, employer-sponsored health care plans must be the primary payers of health care bills for workers and spouses age 65 and older.

Meanwhile, employers, though not currently under the gun, are preparing in case the government seeks reimbursement for Medicare overpayments.

Self-insured employers, insurers and TPAs have been aligning themselves against the government since Provident was informed in May 1988 that the Justice Department was investigating Provident, BCBSM and Travelers Corp. for allegedly allowing Medicare to make primary payments for older workers when the insurers knew that they were required to make those payments (*BI*, April 17, 1989).

In response to the multibillion-dollar problem of Medicare overpayments, the government published repayment regulations in June 1988. Those rules were finalized last November.

The regulations state that in cases where Medicare wrongly acted as the primary payer for working seniors and their spouses, the government is entitled to demand repayment from any entity that should have been responsible for paying benefits on behalf of employer-sponsored group health plans.

In cases where Medicare and the responsible payer both made primary payments, the government can pursue reimbursement for its payment from the payer of the

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Mega Borg is total loss, underwriters announce

GALVESTON, Texas—Underwriters say the costs of repairing the crippled KS Mega Borg II could exceed the ship's current market value of $23 million, says a lawyer for the shipowner.

As a result, the ship has been declared a total loss with a scrap value of about $640,000, says Robert Klawetter, a Houston lawyer representing Mosvolds Rederi AS of Farsund, Norway.

An explosion and fire that heavily damaged the tanker last month in the Gulf of Mexico are still under investigation (*BI*, June 18). Some 3.9 million gallons of light crude oil spilled, but either burned, evaporated or were dispersed by skimmers.

The tanker was insured for its current market value. Half the coverage was placed with Christianssands Skibassuranse of Kristiansand, Norway, and half with A/S Storebrand-Norden-Gruppen in Oslo.

Cleanup costs had hit about $5 million last week and could go as high as $7 million, says Mr. Klawetter.

The shipowner has up to $700 million of pollution liability coverage for cleanup and liability claims: $500 million from Assuranceforeningen Gard Gjensidig, a protection and indemnity club in Arendal, Norway, and the rest from London underwriters.

FASB rules

Continued from page 1

to consider overhauling retiree health care plans to reduce the rules' impact on their financial statements.

"The extra year will prevent companies from doing things hastily and gives them additional time to design effective programs. From a planning perspective, no one should feel pushed," said Buck's Mr. Ferruggia.

Benefit consultants suggest that employers use the additional time to come to grips with their retiree health care liabilities.

"The delay does not make the issue of retiree health care liabilities go away," said Laura Watson, a partner and actuarial consultant with Hewitt Associates in Rowayton, Conn.

"Regardless of the delay, there are still unrecognized liabilities out there. Employers still have to look at what they can afford to provide," said William J. Miner, a Wyatt Co. consultant in Chicago.

'The extra year will prevent companies from doing things hastily and gives them additional time to design effective programs. From a planning perspective, no one should feel pushed,' says Steve Ferruggia of Buck Consultants.

The new accounting rules will force companies to change radically the way they recognize retiree health care costs. Currently, most companies use pay-as-you-go accounting in which expenses for retiree health care costs are recognized when actually paid.

However, under the FASB proposal, employers must accrue as an expense against earnings retiree health care liabilities from the date an employee is hired until the employee is first eligible for those benefits. Also, the difference between accrued expenses and actual payments for retiree health care benefits would be recognized as a liability on firms' balance sheets.

Employers estimate that the proposed rules could reduce pretax earnings an average of 10% and net worth an average of 11%, according to a study by TPF&C, the benefit consulting division of Towers, Perrin, Forster & Crosby Inc. in New York (*BI*, Dec. 4, 1989).

Anticipating the proposed rules, some companies already have overhauled retiree health plans to limit their liabilities.

For example, American Airlines Inc., the Fort Worth, Texas-based subsidiary of AMR Corp., earlier this year began requiring about half its active employees to contribute toward their retiree medical care benefits (*BI*, Dec. 4, 1989).

Many other employers are considering a range of options to reduce their retiree health care liabilities, including linking company contributions to a specific amount of employee service and actuarially reducing benefits for those employees retiring before normal retirement age.

FASB also slightly revised its original proposal last week. Employers would be required to amortize on a straight-line basis their accumulated retiree care liabilities as of the proposal's effective date over the average remaining service period of the employees' remaining service period, or 20 years, if longer.

A first exposure draft called for the transition obligation to be amortized over the average remaining service period of employees' remaining service or 15 years, if longer.

This increase in the period to amortize the transition obligation will slightly decrease reported expenses for some companies, said Foster Higgins' Mr. Vander Els.

In addition, the group agreed last week that employers, in lieu of amortizing this transition obligation over several years, could recognize the entire obligation in 1993 as a one-time charge to earnings.

However, the FASB spokeswoman said the board would be further examining the issue and that certain conditions may be attached to the option of taking the one-time charge to earnings.

"This would be a 'big-bang' approach," said Buck's Mr. Ferruggia, referring to the one-time charge to earnings for the transition obligation.

Consultants aren't sure how many employers would want to recognize the transition obligation at once.

"Some companies may want to recognize the liability immediately to improve future income statements. But other firms may feel they won't be able to afford to do this," said Mr. Ferruggia. ■



REUTERS/BETTMAN NEWSPHOTOS

Destruction of the Berlin Wall, 1989.

"Never say never."

Some companies create obstacles for their producers.

United National Group– one of the largest independently-owned surplus lines insurers in America–tears down those obstacles. Instead, we create solutions to solve special risk problems.

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Adler moves to N.Y. bureau

NEW YORK—*Business Insurance* Associate Editor Stacy Adler, formerly based in the Chicago office, will begin work today in *BI*'s New York bureau.

Ms. Adler, who primarily reports on legal affairs including coverage disputes and pollution-related litigation, can be reached at 212-210-0770.

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Reliance National's NATIONAL POINT OF VIEW

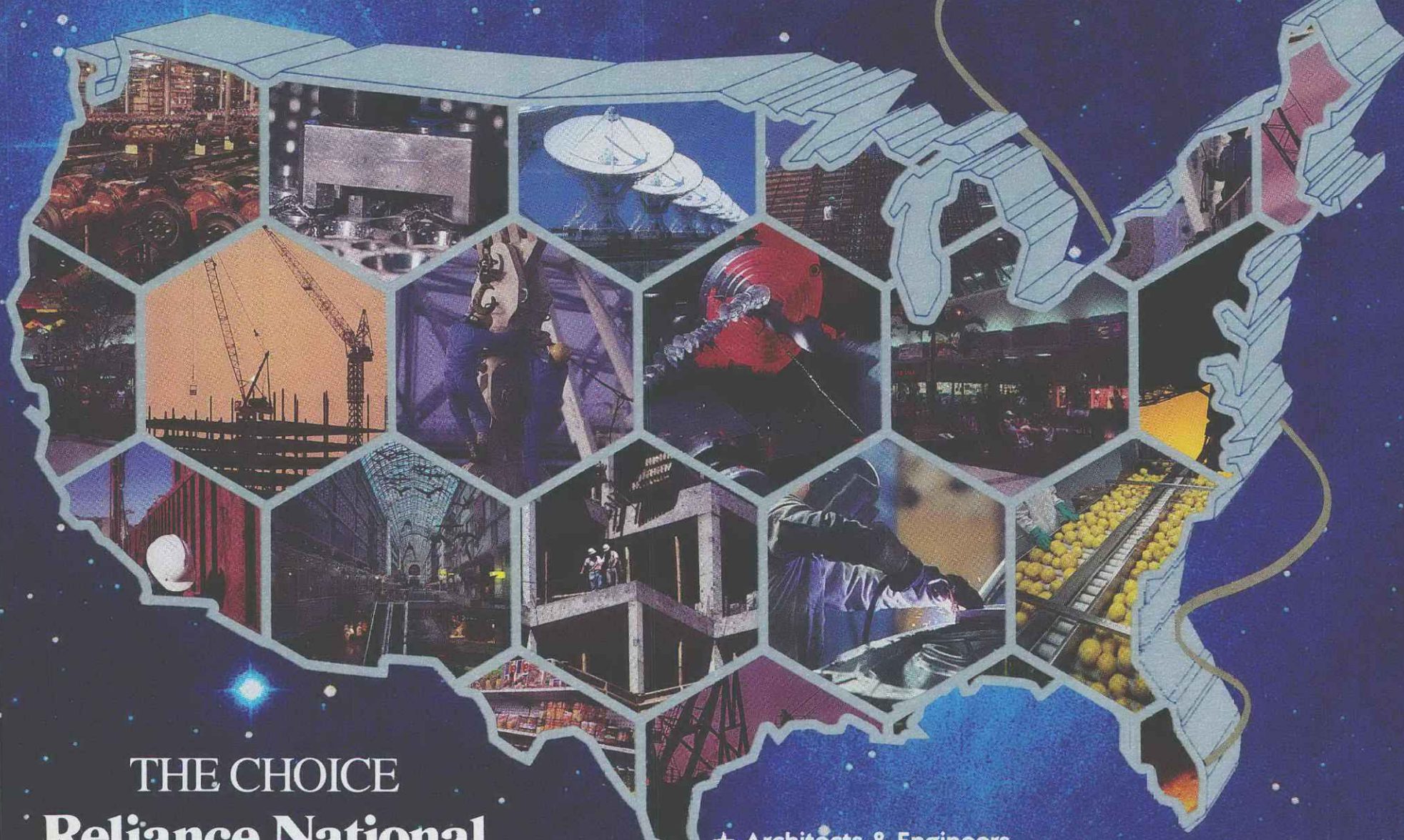
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Bank opens on-site child care center

Northern Trust Corp. is opening an on-site pre-school child care center for the 2,000 employees in its downtown Chicago Trust & Commercial Banking Center.

William N. Setterstrom, senior vp with the Chicago-based bank, believes this facility is the first on-site corporate-sponsored child care center in the city's financial district.

The center, scheduled to open Sept. 1, will be able to handle up to 72 children from six months to six years old, Mr. Setterstrom said.

Located on a portion of one floor of a new building, the center will have an outdoor playground and will be staffed and managed by Corporate Child Care Inc. of Nashville, Tenn.

Employees are to pay the full cost of child care—$120 a week for children between 6 months and 2½ years old and $85 a week for children aged 2½ to 6.

Those rates are "competitive in the Chicago area for first class, high-quality care," said Mr. Setterstrom.

He would not say what the facility cost to build, but says the company expects charges to eventually cover construction costs.

Employees' changing family needs prompted the bank to build the facility, says Mr. Setterstrom.

On Aug. 1, Northern Trust also plans to open an on-site fitness center managed by the Parkside Fitness Group of Park Ridge, Ill. Monthly costs to employees for the fitness center will be $15.

Benefit beat

Deductibles reduced

Kennecott Corp. is cutting annual health care coverage deductibles 50% to 70% for nearly 2,000 unionized workers at its Bingham Canyon copper mine near Salt Lake City.

Lower deductibles and other benefit improvements are part of a three-year contract that took effect Sunday between Kennecott and the United Steelworkers Union.

Under the new contract, employees will pay a $100 individual deductible and a $350 family deductible for all health care services beginning Jan. 1. Deductibles were $350 and $700, respectively.

Kennecott, a unit of London-based RTZ Corp., self-insures its health care plan.

The company reduced deductibles because "the union demanded it, and it is in line with deductibles our competitors require," said Ed Morrison, director of industrial relations for Kennecott.

However, employees now will be required to submit to pre-admission screening for hospitalization and continued stay review except in emergencies, said Mr. Morrison.

Also under the new pact, employees covered by a spouse's health care plan are eligible for $25 monthly payments if they opt out of Kennecott's plan.

In addition, the monthly multiplier portion of the company's pension calculation formula will increase by $5 for retirees with at least 15 years of services.

For those with 15 years of service, months of service will be multiplied by $22, up from $17.

For retirees with 16 to 29 years of service, months of service will be multiplied by $23.50, up from $18.50.

And for those who were with the company for more than 30 years, months of service will be multiplied by $25, up from $20.

The agreement also calls for increasing weekly accident benefits nearly fourfold—to $183 from $49—and increasing life insurance benefits 31.4%, to $23,000 on average from $17,500.

Employees also will be able to place 2% to 16% of annual wages on a pretax basis in a 401(k) savings account. Kennecott will not match employee contributions, Mr. Morrison said.

The 401(k) plan will not be available until July 1, 1991, and it is contingent on one-third of union workers participating.

Base wages are also to rise about 20% over the contract term.

Retirement planning

Employer-sponsored retirement planning programs for active employees are an increasingly popular benefit, says a recently released survey by an employee benefits education association.

Thirty-two percent of the companies polled currently provide retirement planning programs for employees approaching retirement, reports the International Foundation of Employee Benefit Plans.

And, among the respondents who do not offer such programs, 53% said they plan to offer one in the future, with 80% of those respondents saying they would implement a pre-retirement program within three years.

The second annual pre-retirement planning program survey conducted last year by IFEBP polled corporate executives, 75% of whom worked for companies with fewer than 8,000 employees.

Of the 301 respondents, 67% were employee benefit and compensation managers, 13% were human resource professionals, 6% were corporate officers, 3% were financial officers, 3% were insurance representatives, 2% were consultants, and 6% were involved in other forms of employee benefit administration.

The survey also found that many employers plan to offer a retirement planning program to a younger group of still-active employees in the future.

Among those employers, 41% require participants to be at least 55 years of age, and 25% require employees to be at least 50 years old.

Overall, respondents listed eligibility ages ranging from 21 to 60.

Among companies with retirement planning programs, more than 40% will be lowering the eligibility age because more employees throughout the U.S. are retiring at an earlier age, the survey found.

But 25% of employers that do not currently provide retirement planning programs said a young workforce makes such a program unnecessary. In addition, 24% said their workers did not need a retirement planning program; 15% said such a program would be too costly; and 12% said they do not offer such a program for a combination of all three reasons.

A free copy of the survey is available through the International Foundation of Employee Benefit Plans' public relations department, P.O. Box 69, Brookfield, Wis. 53008; 414-786-6700. ■

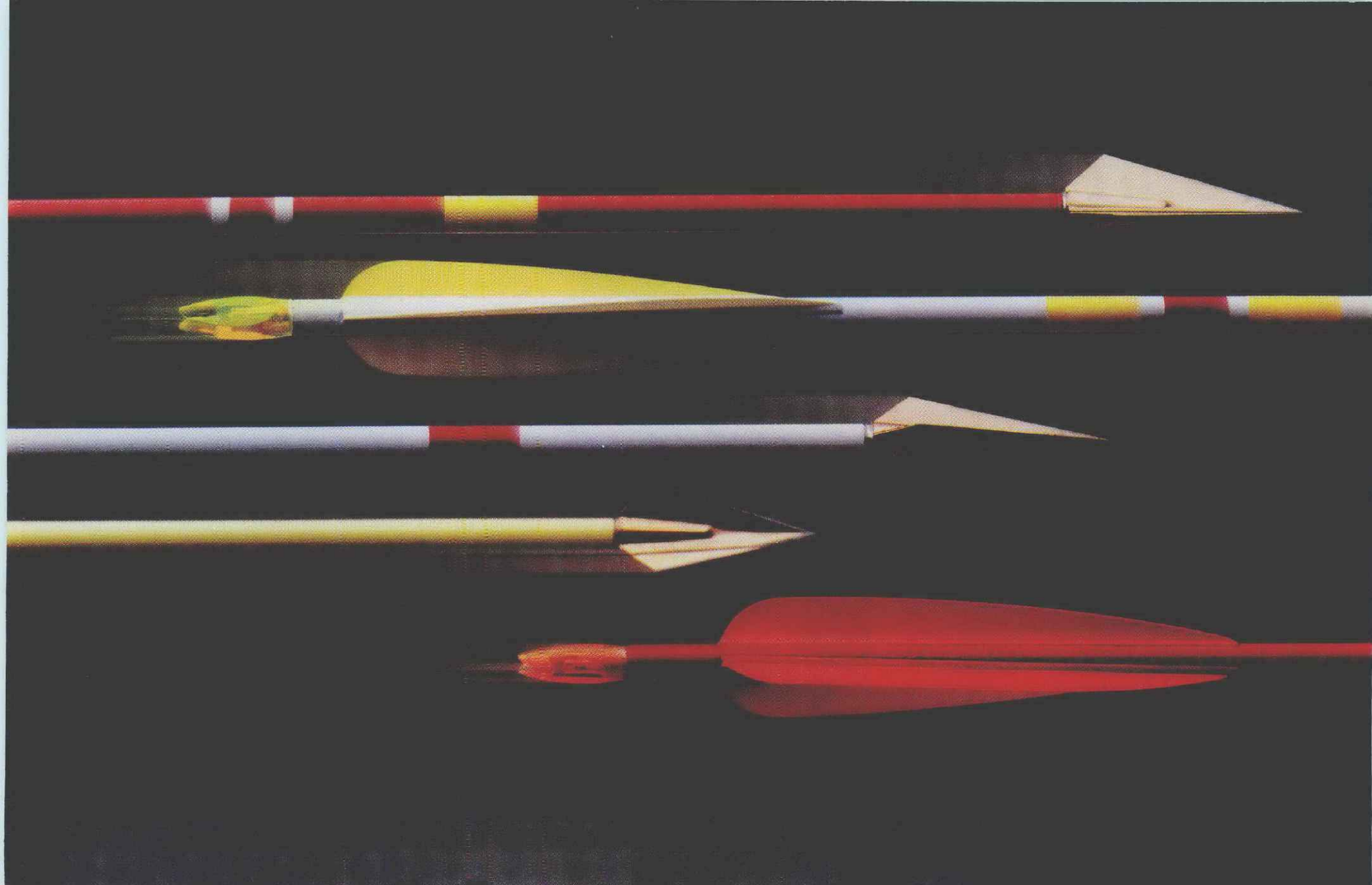


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Opinions

Court sets LTV straight

EMPLOYERS AND WORKERS have good reason to celebrate last month's U.S. Supreme Court decision affirming the right of the Pension Benefit Guaranty Corp. to return to LTV Corp. three massively underfunded pension plans.

For more than three years, the plans—and their $2.3 billion in unfunded liabilities—have been bouncing back and forth between LTV and the PBGC.

The PBGC first terminated the plans in January 1987 after LTV said it no longer could afford to make contributions to the plans.

Then, in September 1987, the PBGC attempted to return the plans to LTV after the company, as part of a collective bargaining agreement with the United Steel Workers union, set up a new, lower-cost "follow-on" pension program. The new follow-on plan essentially provided participants with the difference between the benefits promised by LTV and benefits guaranteed by the PBGC.

PBGC officials were outraged by the arrangement. They viewed—correctly, as we said at the time—LTV's maneuvers as a continuation of the company's old plans except that the PBGC—not LTV—would pay the bulk of benefits to participants.

Two federal courts did not see it that way and ruled that the PBGC had no right to restore the terminated plans to LTV.

But, the Supreme Court had it exactly right when it said follow-on plans frustrated a key PBGC statutory objective: keeping insurance premiums it charges employers as low as possible.

Clearly, if LTV had been allowed to get away with shifting billions of dollars in liabilities to the PBGC, other employers would have tried to do the same.

The result: The PBGC's deficit, now $1 billion, would have spiraled, forcing the agency to ask Congress for permission to raise the premiums it charges employers.

Ultimately, responsible employers, sick of paying the costs of companies trying to manipulate the pension insurance system, would have bailed out of their defined benefit plans and set up defined contribution plans, which are not protected by the PBGC and which do not promise a fixed, insured benefit to participants.

Fortunately, the Supreme Court decision will stop



that scenario from developing.

The decision confirms that employers' PBGC premiums will be used to protect beneficiaries when companies fail but not to bail out companies still operating that do not want to honor pension promises.

The PBGC should be responsible for the LTV plans only if a court rules that the underfunded plans would lead to the collapse of the company.

The Supreme Court decision in the LTV case is part of a recent, and encouraging, trend of strengthening the nation's defined benefit system. In 1986, for example, Congress, closed a loophole that in some cases allowed financially healthy companies to terminate underfunded pension plans at little cost.

And, in 1987, Congress toughened funding rules, which will help ensure that corporate pension plans are soundly funded and do not amass multibillion dollar liabilities as LTV did.

No doubt, some employers will devise strategies to try to evade their pension liabilities. We hope the Supreme Court will be as tough on those companies as it was on LTV.

Letters

NCCI rating impact to vary with loss experience

To the editor: I am concerned that the headline on the article "States Implement New Comp Formula—Big Firms With Good Records to Suffer" (*BI*, May 21) and the editorial and cartoon "Solution Still Needed" (*BI*, June 5) give the incorrect impression that all large employers with good loss records will be hurt by the National Council on Compensation Insurance's revised experience rating plan. In fact, the impact on these employers will vary depending on their specific loss experience (see Ask a Casualty Actuary, page 35).

One important impact of the revised plan is that an employer's rating will be less subject to the chance occurrence of large losses in the experience period. While testing done during development of the revised plan showed that less credibility should be given to the loss experience of large employers than was given under the former plan, there are also important changes in the way the experience is counted.

For example, in experience rating any one loss is limited before it is counted as part of the employer's experience in the formula. The limit varies by state, but in most cases it will be considerably lower under the revised plan. There are other changes in the way the actual losses are counted in the formula that tend to reduce the impact under the revised plan of losses that are large but lower than the state loss limit.

An example, like a picture, can be worth a thousand words. A hypothetical large employer with three-year expected losses of $500,000 and four actual losses of $100,000 might typically have a modification factor of 0.74 under the former plan and a lower modification factor of 0.63 under the revised plan. The same size employer with 15 losses of $10,000 and 15 losses of $1,000 would typically see an increase in modification factor from 0.58 under the old formula, to 0.68 under the revised plan.

Richard M. Jaeger
Senior Vp/Actuary
National Council
on Compensation Insurance
New York

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Claimants must risk losing cases in court

To the editor: Your opinion in "County's Action Outrageous" (*BI*, June 11) is without merit and borders on the ridiculously socialist. Using your logic, every claim litigated would have to be paid simply because an entity, be it insurer or self-insurer, has established a reserve to cover the eventuality of losing in court.

As I read the related story, Richmond County, Ga., made an offer to settle the case prior to the trial, but the plaintiff did not accept the offer. The story does not mention what the pretrial demand was. Did it not occur to you that many cases go to trial because some plaintiffs and their attorneys are greedy and make excessive demands? This is usually true in cases of seemingly clear liability.

As a risk manager of a large self-insured entity, in a particularly litigious geographic area, there are many times I have opted to litigate cases when there are excessive demands—even if liability is clear. Some of these cases have been decided in my favor. If I had your philosophy, after winning in court, I should have opened my employer's checkbook and paid the claim because I have been guilty of "abusing the tort system" by defending my employer against unreasonable claimants and lawyers. Claimants should realize that there is a chance of losing

D.T. Fleming
Chief, Division of Risk Management
Montgomery County, Md.

Letters continued on page 10

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At issue

How can colleges better promote careers in risk management?



Michael S. Scheinblum
Risk manager
Carnival Cruise Lines Inc.,
Miami

I'm convinced the way to go about it is a work study program. It is very important that while the student is minoring in risk management he is working in the risk management environment—whether for an underwriter, a claims administrator or an agency. Companies like to mold their employees and this way the student isn't starting from peg one.



Charlotte Humphrey
Risk manager
Golden Corral Corp.,
Raleigh, N.C.

The way to enhance the value of risk management programs in colleges is to give them the respect of other disciplines. In large colleges and universities, they must teach that cost control accounting, taxes and human resources are not the only resources for increasing the bottom line. Business courses should stress that risk management is an important function.



Susan Lagneaux
Risk manager
United Purchasers Assn. Inc.,
Des Moines, Iowa

There are many opportunities in risk management that are unknown by students and could be promoted by colleges to high school teachers and counselors. Colleges should require a course in the risk management process so students can explore the subject. And, colleges could also work closely with corporations by arranging internships.



Susan Staff
Senior insurance analyst
Rust International Corp.,
Birmingham, Ala.

Undergraduate and graduate business programs should require risk management courses to promote awareness of the field. Interaction between students and the risk management community through internships, scholarship funds for risk management career-oriented students and joint activities with risk management associations would also help.

Compiled by Christine Woolsey



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Letters

'Clear warnings' clearly insufficient

To the editor: The June 4 editorial, "Safety Rule Discriminates," shows incredible ignorance when it states: "Clear warnings from Johnson Controls about the risks to unborn children created by pregnant women's exposure to lead should suffice."

Anyone remotely connected with the risk management business knows that warnings do not suffice.

Courts in this country routinely award large sums to those who either did not read, or read but failed to follow, warnings. Johnson Controls' policy is a realistic attempt to deal with a practical world.

It is true that Johnson Controls could restrict jobs to those women who advise that they do not plan to have more children. Check with birth control clinics or physicians, though, and ask how many people ask to have surgical sterilization procedures reversed.

Since a number seek to have these procedures reversed, how much easier is it to simply change one's mind? Since parents may not bargain away the rights of a minor child, what protection will a warning to parents afford to Johnson when a child decides to sue?

Johnson Controls has a right to protect its existence from future lawsuits. If it may not do so by preventing exposure to employees whom its processes might injure, perhaps it should simply cease making the product, as other U.S. firms have done.

After enough products that enrich our lives or cure our diseases have disappeared from the market because of the high costs of litigation, you might wish to rethink your position.

Stephen Michaels
Indianapolis

Remarks off base on role of offsets

To the editor: Your opinion on the role of offsets misses the mark.

In your editorial on the National Assn. of Insurance Commissioners' decision to advise states to limit the rights of reinsurers to offsets with insolvent insurers and reinsurers (*BI*, June 18), you say that the policyholder paid a premium to protect itself against any risk of loss covered by the policy.

I accept this statement as the truth, but not the whole truth. It omits the fact that the policyholder bears a certain credit risk of insurer insolvency not assumed by the guaranty funds. Likewise, reinsurers assume risk under the policies ceded and they bear a certain credit risk of insurer insolvency. In other words, both the policyholder and reinsurer bear the risk of insurer insolvency.

Why should reinsurers receive priority over policyholders? The general answer applied to all industries is that the vendor (reinsurer), by the extension of credit on a regular basis to the firm (insurer), provides firms with an essential and irreplaceable source of financing.

Seen from a macroeconomic perspective, promoting the extension of credit by vendors to firms as a general practice benefits society by creating more goods and services and more competition to keep prices low. This public policy reason for priority to vendors has been a part of the common law for centuries and part of the American bankruptcy laws. Your response to the offset issue was emotional rather than logical.

Aaron E. Michel
Attorney
Charlotte, N.C.

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Poll finds 39% growth in open-ended HMOs

By JERRY GEISEL

EXCELSIOR, Minn.—Enrollment in open-ended health maintenance organizations is increasing by double-digit percentages, while growth in traditional HMOs is sluggish, a new survey reports.

However, enrollment in traditional HMOs in certain states, such as California and New York, continues to rapidly increase, according to the "InterStudy Edge," a report by InterStudy, a managed care research organization in Excelsior, Minn.

Enrollment in open-ended HMOs, which allow members to receive services outside the network at reduced benefit levels, increased 39.2% in 1989 to 857,995 from 616,568.

By contrast, enrollment in traditional HMOs rose 3.8% to 33.1 million in 1989 from 31.9 million.

Enrollment in open-ended HMOs climbed 22.1% during the last six months of 1989, rising to 857,995 from 702,648, while traditional HMO enrollment moved ahead just 1.8% to 33.1 million from 32.5 million.

At the same time, the number of organizations offering an open-ended option continues to rise. As of Jan. 1, 84 HMOs offered an open-ended product, compared with 78 on July 1, 1989, and 70 on Jan. 1, 1989.

Growth in the number of open-ended HMOs is a reflection of the organizations responding to the market, said Lynn Gruber, vp-managed care research at InterStudy.

"Employers want to offer HMOs, but they also know that some employees still want the freedom to choose providers," she said.

While enrollment is growing, consolidation is steadily reducing the number of HMOs. As of Jan. 1, 575 HMOs were operating around the country, down from 590 on July 1, 1989, and 607 on Jan. 1, 1989. The number peaked at 653 in January 1988 after consistent increases during the early 1980s.

Ultimately, the number may bottom out at about 500 as mergers to achieve operating efficiencies gain favor, Ms. Gruber said.

According to the survey, 13.3% of the nation's population is enrolled in pure HMOs. And, as was the case in an earlier InterStudy survey, enrollment exceeds 20% of the population in six states.

States with the highest percentage of their population enrolled in traditional HMOs as of Jan. 1 are: California, with 8.7 million people, or 29.9% of the population; Massachusetts, 1.5 million, or 25.1%; Oregon, 657,000, or 23.3%; Rhode Island, 221,000, or 22.1%; Hawaii, 244,000, or 22%; and Wisconsin, 1.1 million, or 21.7%.

States with the smallest percentage of their population enrolled in traditional HMOs as of Jan. 1 include: Alaska, Mississippi and Wyoming, where no HMOs were operating; Montana, 3,100 enrollees or 0.4% of the population; North Dakota, 11,000, or 1.7%; South Carolina, 70,000 enrollees, or 2%; Arkansas, 50,000, or 2.1%; and Idaho, 24,000, or 2.3%.

States with the largest enrollment gains during the last six months of 1989 include: California, up 254,000 to 8.7 million; New York, up 79,000 to 2.6 million; and Iowa, up 78,000 to 300,000.

The sharpest declines in HMO enrollment occurred in: Minnesota, down 53,000 to 714,000; Arizona, down 50,000 to 548,000; and Tennessee, down 34,000 to 197,000. However, InterStudy notes that Minnesota's drop in traditional HMO membership was somewhat offset by a 22,000-member gain in enrollment in open-ended HMOs. As of Jan. 1, 1990, Minnesota had 355,000 people enrolled in open-

Continued on next page



Continued from previous page
ended HMOs, the most in any state.

According to the survey, the bulk of members are enrolled in the nation's largest HMOs.

As of Jan. 1, 20.2 million people —or 61.1% of all members—were enrolled in the 82 HMOs that each had more than 100,000 enrollees.

That's up from July 1, 1989, when 19.2 million people—or 59.1% of all members—were enrolled in the 78 HMOs that then each had more than 100,000 enrollees.

While small HMOs—those with fewer than 15,000 enrollees—far outnumber those with more than 100,000 enrollees—194 to 82—the smallest organizations account for only a small fraction of total enrollment.

For example, as of Jan. 1, there were only 172,000 people enrolled —0.5% of the total—in the 69 HMOs with fewer than 5,000 enrollees, while there were 1.2 million—3.7% of the total—in the 125 HMOs with between 5,000 and 14,999 enrollees each.

All HMOs, based on operating structure, grew during the last half of 1989, but staff models grew the most.

Enrollment in staff model HMOs climbed 5% to 4.2 million as of Jan. 1 from 4 million on July 1, 1989. Staff model HMOs directly employ salaried physicians to serve patients.

Enrollment in network model HMOs rose 1.8% to 5.8 million from 5.7 million during the last six months of 1989. Network model HMOs contract with two or more independent group practices. While a network model HMO may contain a few solo practitioners, it is predominantly organized around groups.

And, enrollment in independent practice HMOs climbed 1.5% to 13.8 million as of Jan. 1 from 13.6 million as of July 1, 1989. An independent practice association HMO contracts directly with physicians in private practice who primarily provide services to patients who are not enrolled in HMOs.

Enrollment is concentrated in older and, increasingly, larger HMOs, InterStudy says.

Enrollment in group model HMOs climbed 1.1% to 9.3 million as of Jan. 1 from 9.2 million as of July 1, 1989. The group model organizations contract with independent, multispecialty physician groups to provide services to HMO subscribers.

Other InterStudy findings include:

- Enrollment is generally concentrated in the oldest organizations. As of Jan. 1, 20 million people—60.3% of the total—were enrolled in HMOs that were at least 10 years old, while 4.8 million people—14.5% of the total—were enrolled in HMOs between six and nine years old, and 7.4 million people—22.4% of the total—were enrolled in HMOs between three and five years old.

By contrast, just 870,000 people —2.6% of the total—were enrolled in HMOs between one and two years old, and 24,000 people—0.1% of the total—were enrolled in those less than one year old.

- Enrollment is highest in the West with 12 million members, followed by the Midwest with 7.6 million members, the Northeast with 7.4 million and the South with 6 million.
- Enrollment in federally qualified HMOs dwarfs enrollment in non-federally qualified HMOs. As of Jan. 1, 25.2 million people were enrolled in the nation's 301 federally qualified HMOs, compared with enrollment of 7.9 million in 274 non-federally qualified HMOs.
- Enrollment in not-for-profit HMOs is greater than enrollment in for-profit HMOs. As of Jan. 1, 17.9 million people were enrolled in 198 not-for-profit HMOs, compared with 15.2 million in 377 for-profit HMOs.

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Copies of the "InterStudy Edge," reporting enrollment statistics for the last half of 1989, are available for $60 each. Specify Volume 2. Annual subscriptions to "InterStudy Edge" are available for $225. For more information, contact InterStudy, 5715 Christmas Lake Road, P.O. Box 458, Excelsior, Minn. 55331; 612-474-1176.

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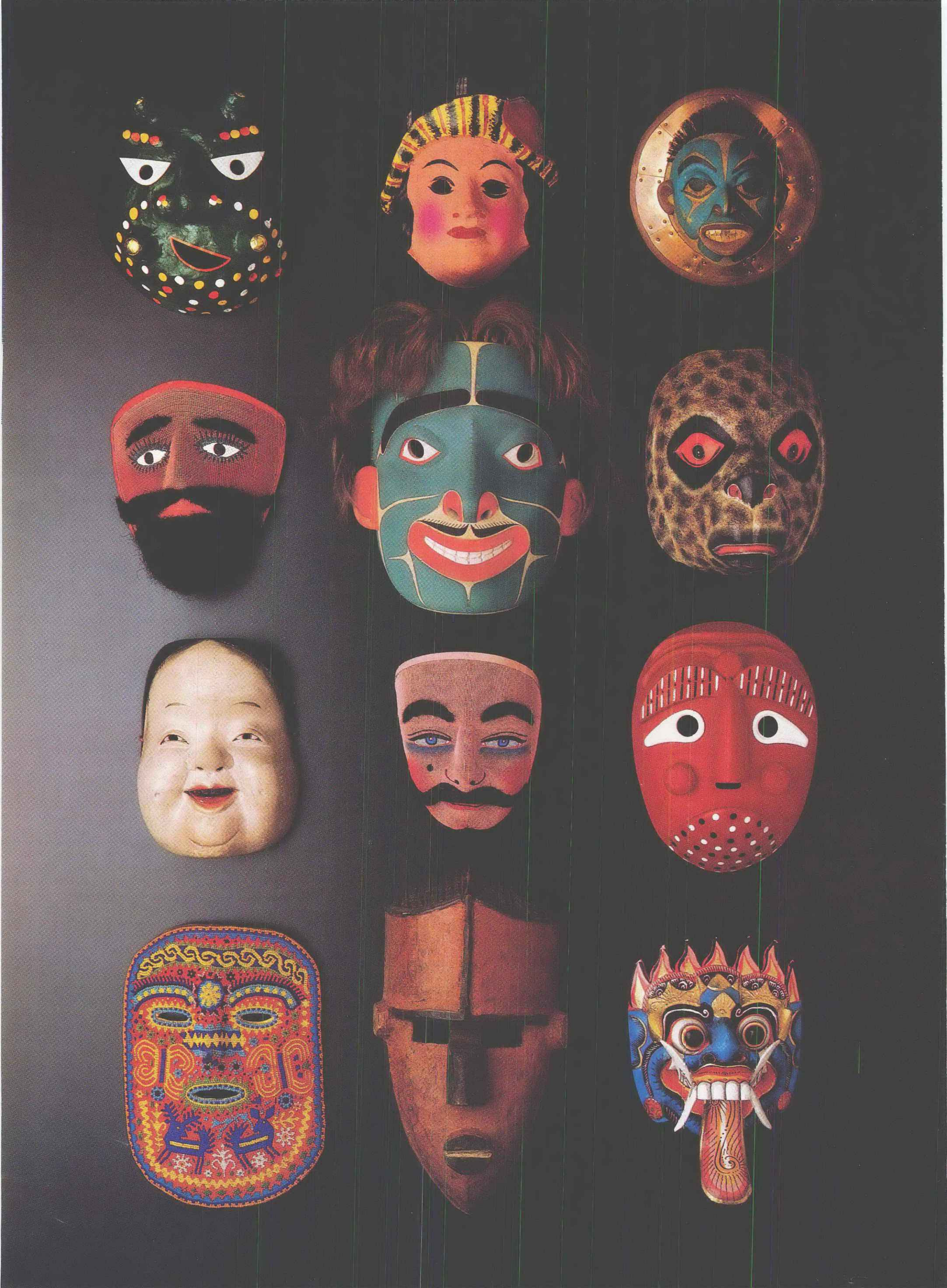
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Provident case

Continued from page 3

claim, according to the regulations.

Under that provision, the primary payer would be forced to pay the same claim twice.

In response to the regulations, the Health Insurance Assn. of America, an insurer trade group in Washington, D.C., filed suit June 8 in federal court in Washington, D.C., seeking to have the regulations overturned on the grounds that the Health Care Financing Administration exceeded its statutory authority.

That suit is pending.

"We want the government to admit that they cannot arbitrarily say who is responsible for payments. The government must also realize that insurance carriers often function as administrators only, and in those cases repayment must be obtained from the self-insured employer," said Terri Sorota, senior counsel with the HIAA.

Nevertheless, self-insured businesses say they are not fearful of the federal government seeking reimbursement from them after the recent court rulings absolving TPAs of liability.

"As of yet, I have not seen this issue come across my desk as a red flag," said James A. Kinder, executive vp of the Self-Insurance Institute of America in Santa Ana, Calif. "But if we see the government coming toward the employer, we will definitely band together to respond."

And, Carolyn Miller, legislative representative for the National Federation of Independent Businesses in Washington, D.C., said she has not been informed by any of the association's 570,000 members that the government has broached the subject with them.

"But that doesn't mean much because we're usually the last to know and the first to be dragged into court," she quipped.

The Justice Department is litigating the case on behalf of the Department of Health and Human Services and its Medicare administrator, HCFA.

A Justice spokesman declined to comment on the government's next course of action.

However, he did say that Judge Edgar's decision to allow the government to pursue reimbursement from Provident on insured claims paves the way to determine exactly how much Medicare paid that should have been paid by Provident.

To determine the amount of claims in dispute, Judge Edgar ordered Provident to produce records concerning beneficiaries receiving Medicare benefits, as well as lists of all employer group health plans and beneficiaries that would have been subject to the Medicare secondary payer provisions.

The government's 1989 lawsuit said Provident was liable for between $7 million and $223 million in Medicare overpayments.

According to J. Michael Gannon, vp and general counsel for the insurer, those figures were "wildly inflated even before Provident was released from payment on the plans it only administered."

He contends that the courts need to do a great deal of clarifying before the parties can determine which claims are "deserving of legitimate reimbursement."

Mr. Gannon suggests that federal officials pursue reimbursement from hospitals for claims that were paid twice.

Hospitals say reserves have been set up to refund double payments.

George Arges, senior staff specialist at the American Hospital Assn. in Chicago, confirmed that money from duplicate payments has been placed in escrow accounts until courts decide whether hospitals are entitled to it. He said he did not know how much has been reserved.

Provident will do whatever is required to determine where Medicare overpaid, but the government has not yet provided a basis for its claim, said Rita M. Theisen of LeBoeuf, Lamb, Leiby & MacRae in Washington, D.C., the law firm that represents Provident.

"We have always said we would pay all valid claims, but the government has no definite figures. They don't know whom they paid, how much or when. We feel their claim is unfounded and they really don't even know what they're trying to recover," Ms. Theisen said.

Neither Ms. Theisen nor Mr. Gannon could say how much money is still in dispute after the recent ruling, but the government spokesman said that he believed that "the percentage at which Provident functions solely as an administrator is very small."

Ms. Theisen and Mr. Gannon said at least 35% of Provident's gross revenues are derived from third-party administrative services, while 25% to 30% is attributable to various insurance arrangements under which Provident does not assume the full risk for those covered under employer-sponsored health plans.

'The logic behind the government's charges was crazy. In many cases, they were asking paper pushers to pay for their errors,' says Frederick D. Hunt. 'They were desperate for money and grabbed at straws.'

In his decision, Judge Edgar ruled that the "government has an independent statutory right of action against Provident. . .but the government's statutory right of action does not extend to Provident where Provident is solely the administrator of employer group health plans."

This ruling did not surprise Frederick D. Hunt, president of the Society of Professional Benefit Administrators, a 400-member trade group in Washington, D.C.

"We are pleased with this ruling, but we're not surprised. The logic behind the government's charges was crazy. In many cases, they were asking paper pushers to pay for their errors. They were desperate for money and grabbed at straws."

Mr. Hunt predicts the government will not push the issue of Medicare overpayments beyond the existing lawsuits.

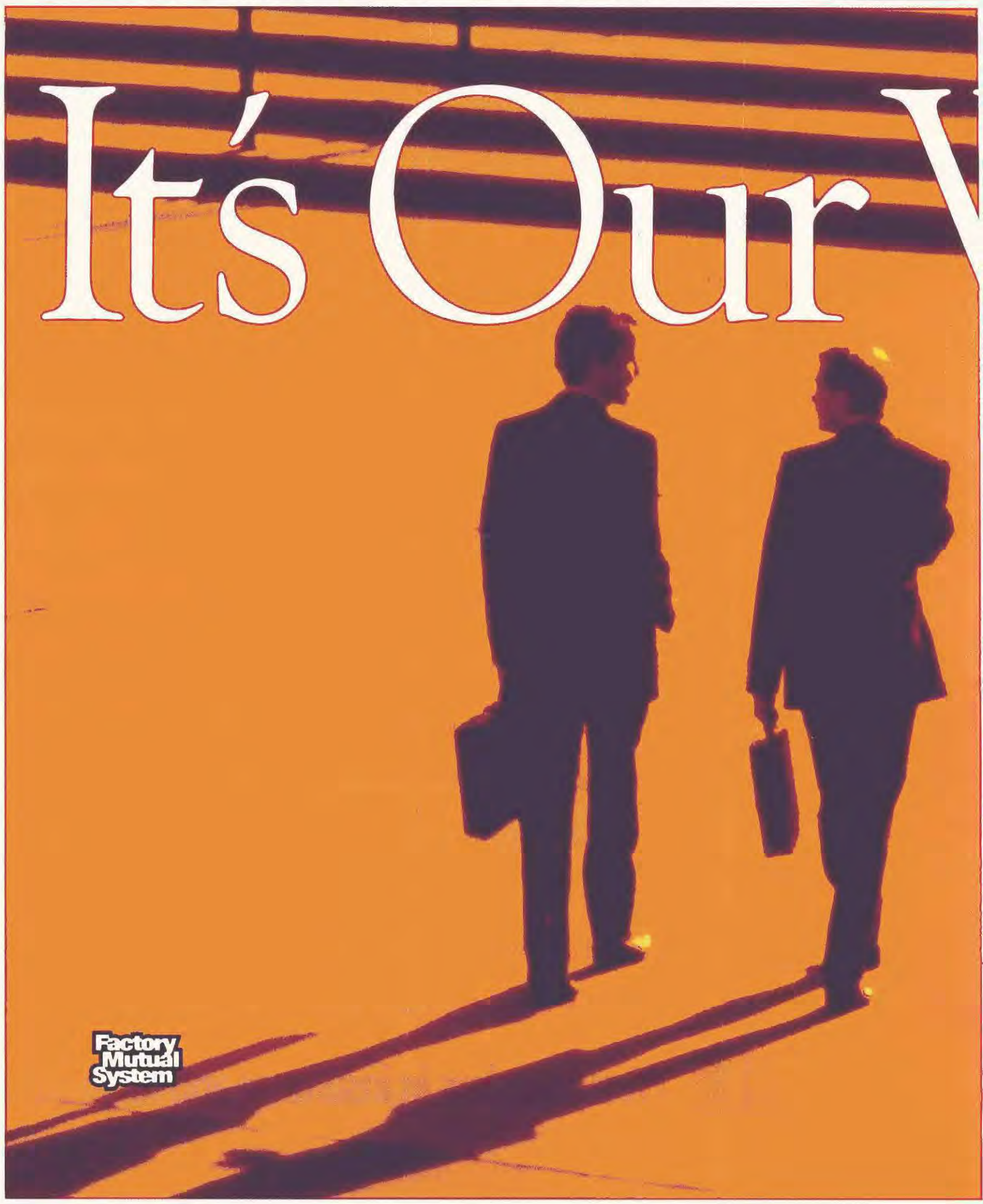
"These cases were brought about to establish precedent and to get other parties to pay for the government's mistakes. I think they have been looking to save face," he said.

Judge Edgar also wrote: "The government's statutory right of action does not extend to Medicare overpayments where Provident (also) made payments as the primary payer."

"We are very pleased with this portion of the decision," said HIAA's Ms. Sorota. "It may preclude the government from pursuing this course of action against our members in the future."

Pre-trial motions are before a judge in the government's lawsuit against Hartford, Conn.-based Travelers, but no court date has been set.

That suit was filed May 24, 1989, in federal court in New Haven, Conn., said a Travelers spokeswoman. ■



Pollution ruling

Continued from page 2

defend and indemnify the policyholder for the claims because the pollution exclusion bars coverage only for expected or intended pollution incidents.

The policyholder said policyholder intent, rather than a temporal reading of the pollution exclusion clause, should be considered.

A Wisconsin state court ruled for Bituminous and the Wisconsin Appellate Court upheld the ruling in August 1988.

But, the Wisconsin Supreme Court justices found that the clause is ambiguous and therefore chose the interpretation most favorable to policyholders.

"Our conclusion that the phrase is ambiguous requires that we apply the interpretation favoring the insured and reject the insurer's arguments that the phrase 'sudden and accidental' has only a temporal meaning within the exclusionary clause," the court said.

"The phrase 'sudden and accidental' means damages that are unexpected and unintended," the court ruled.

Indeed, there is "substantial evidence indicating that the insurance industry itself originally intended the phrase to be construed as 'unexpected and unintended,' " the court concluded after reviewing the exclusion's drafting history.

"Contemporaneous representations by the insurance industry confirm that the drafting committee, in creating the exclusionary clause, clarified but did not reduce the scope of coverage," the court said.

Specifically, the court looked at statements made by the Insurance Rating Board, the predecessor to the Insurance Services Office Inc., and by the Mutual Insurance Rating Bureau, which assisted in drafting the exclusion. Both groups said the pollution exclusion clause was intended to clarify that there is no coverage for events that are expected or intended by the policyholder.

The IRB and the MIRB said adding the pollution exclusion to the CGL policy would not result in a change or restriction of coverage.

However, the dissenting judge wrote: "In its zeal to provide insurance coverage where it does not exist, (the majority) has changed an insurance policy into an assurance policy.

"With its interpretation, an insurance policy is not a risk contract, but a guarantee for all damages," the dissent said. "The policy now becomes a deep pocket to pay for businesses' mistakes."

Several attorneys predicted the majority opinion would influence cases nationwide.

After the Wisconsin ruling, the "drafting history should be influential to more courts in the future," said Joseph Muratore Sr., who represented Land Reclamation in the suit.

"The definition of the pollution exclusion is intricately interwoven in the drafting history," asserted Mr. Muratore, who is with his own firm in Racine.

The drafting history shows that the pollution exclusion is a mere clarification of coverage, he said.

"A majority of courts that have ruled on the issue have found the pollution exclusion ambiguous and grant coverage," Mr. Muratore said.

Policyholder attorney Eugene Anderson of Anderson, Kill, Olick & Oshinsky agreed that courts nationwide will be influenced by the Wisconsin Supreme Court's decision.

"This puts the drafting history in neon lights. I am confident that courts that have been blinded will see the light," he said.

"The Supreme Court's opinion is a great victory for Wisconsin policyholders since it restores billions of dollars of coverage that insurance companies have attempted to eliminate by denying gradual damage claims based on the pollution exclusion," Mr. Rozinski said.

Bituminous attorney J. Ric Gass of Kasdorf, Lewis, & Swietkik in Milwaukee said he will ask the state court to reconsider its ruling.

Specifically, the court seems to have concluded that because the pollution exclusion does not bar coverage, the insurer must defend the pollution claims against the policyholder, he said.

However, there are many other policy exclusions that could bar coverage, he said.

For example, courts have not ruled on the meaning of other policy language that bars coverage for expected and intended acts, he said.

"The Wisconsin Supreme Court has created coverage out of whole cloth where there never was any coverage intended," Mr. Gass said.

"The intent of insurers was not to provide coverage for gradual pollution," he said.

Mr. Gass said that the court should not have looked at the drafting history because the phrase "sudden and accidental" is not ambiguous.

"We are dealing with such simple words that have no lack of clarity," he said. "The drafting history is only necessary if the terms are ambiguous."

Further, Mr. Gass said, "the modern, growing tendency has been for courts to uphold the pollution exclusion."

"Wisconsin is out of sync," he said. "They have gone against the growing majority of modern decisions."

The case has been remanded for a determination of whether Land Reclamation is liable to the property owners and, if so, whether Bituminous has a duty to indemnify Land Reclamation.

The indemnification issue will hinge on whether Land Reclamation expected or intended the pollution, attorneys say.

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Just vs. Land Reclamation Ltd., Wisconsin Supreme Court; No. 88-1656.

Journalists sue computer firm

NEW YORK—A dozen journalists and several of their spouses are seeking $293 million in two suits against Eastman Kodak Co.'s Atex electronic publishing unit, claiming use of an Atex system has caused repetitive motion injuries that have left them unable to perform basic functions with their hands and arms.

The lawsuits, filed earlier this month in New York State Supreme Court and federal court in New York, allege that Bedford, Mass.-based Atex negligently failed to inform users of the risks involved with using its word processing system. The suits also allege product liability, claiming Atex keyboards provide too little resistance when operated, were defectively designed and were improperly tested.

As a result, the workers allege they have developed carpal tunnel syndrome and tendonitis.

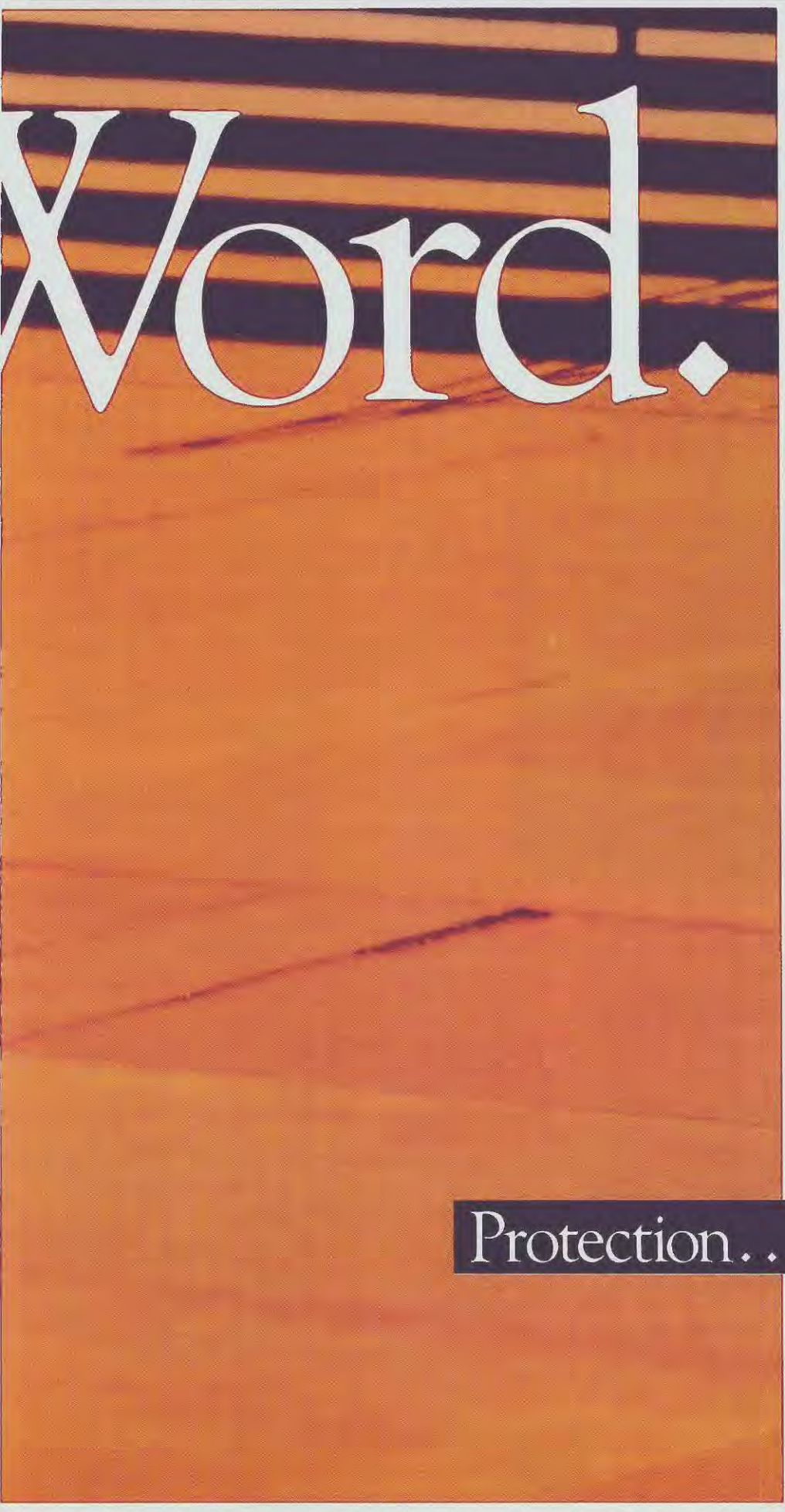
A lawsuit filed June 4 in state Supreme Court in Manhattan seeks $20 million in damages for negligence and product liability, said Melvin Friedman, a personal injury lawyer with the New York law firm Kreindler & Kreindler, who represents four reporters from Newsday. The suit seeks $5 million in damages for each claimant.

In addition, husbands of three of the plaintiffs are suing Atex for $1 million each for loss of consortium.

In the lawsuit filed June 15 in U.S. District Court for the Southern District of New York, nine other journalists as well as the spouses of three of the claimants are seeking $270 million in negligence and product liability damages, "because they are now unable to perform basic daily functions with their hands," said plaintiffs' attorney Christopher Placitella, an attorney in the Woodbridge, N.J., office of New York-based Wilentz, Goldman & Spitzer.

Kodak and Atex would not comment on the suits.

—By Michael Schachner





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Family benefits

Continued from page 3

found. Among those companies, 44.4% subsidized the cost for care at an on-site or near-site child care center; 33.3% offered a non-subsidized on-site or near-site center; 11.1% offered a subsidized "consortium center," which is a facility sponsored by more than one employer; and 11.1% offered a non-subsidized consortium center, according to the survey.

Other child care assistance benefits offered by employers include employer-arranged discounts with local child care providers and child care programs for sick children.

Some employers also financially support off-site child care facilities.

Hewitt also found that 56% of respondents offer some sort of flexible scheduling to help their workers meet family needs.

"Flexibility is the buzzword of the '90s," Ms. Foster said. "Everyone is talking about flexible scheduling."

The costs of recruiting and training new workers are high, so employers are "trying to really manage the changing workforce," Ms. Foster said.

Flexible scheduling "is really viewed as one way to retain women, in particular," she said. Flexible scheduling "enables women to work after they've been mothers."

Employers are offering a variety of flexible schedules, according to the survey.

Forty-two percent of employers offer flex time, which allows an employee to work specific, set hours every day on a schedule different from regular business hours. For example, a worker with a flex time schedule might work from 7:30 a.m. to 3:30 p.m., instead of from 9:00 a.m. to 5:00 p.m., Ms. Foster explained.

Other forms of flexible scheduling include part-time employment, offered by 36% of the respondents, and job sharing, offered by 17%, the survey found.

Part-time work often is easier for companies to deal with than job sharing because of questions about how benefits should be allocated to job sharers, Ms. Foster noted.

Few employers do not offer part-time workers any benefits, she added.

In addition, 13% of survey respondents allow employees to work a compressed work schedule, in which an employee works the same number of hours of a regular work week but in fewer days.

And, 9% offer employees the option of working at home, the survey found.

Total percentages exceed 100% because some employers offer workers a choice of several flexible schedules.

The survey found that 56% of respondents offer some sort of flexible scheduling to help their workers meet family needs. 'Flexibility is the buzzword of the '90s. Everyone is talking about flexible scheduling,' Ms. Foster says.

Employers with part-time workers usually either pro-rate benefits based on the number of hours an employee works, offer a specific benefit package to part-time workers or offer full-time benefits to some part-time workers, Ms. Foster said.

Hewitt also found that elder care assistance programs are not yet as popular as some other work and family benefits. Elder care benefits were offered by 31% of survey respondents.

However, implementing elder care benefits is not that difficult, especially if an employer already offers child care benefits, Ms. Foster pointed out.

For example, an employer that offers a dependent care spending account for child care also could allow employees to use it for elder care, she said.

Among survey respondents that offer elder care benefits, dependent care spending accounts are the most popular benefit, offered by 27% of respondents.

Ten percent of employers offer resource and referral services for elder care, 5% offer counseling services and 2% offer long-term care insurance, according to the survey.

The percentages add up to more than 31% because some employers offer more than one elder care benefit.

Ms. Foster noted that many employers also considered but rejected the idea of offering long-term care insurance for a variety of reasons.

These reasons included: the cost of offering the benefit; unattractive rates, especially as people age; concern about low participation; and uncertainty about whether Medicare will be expanded and, if so, whether long-term care would be included.

But, Ms. Foster predicted that more employers will offer elder care assistance benefits, although the popularity of the benefit will grow more slowly than child care assistance benefits.

In the area of parental and family medical leave, the survey found that most leaves, excluding those for disability, are unpaid.

"I don't see that changing," Ms. Foster said.

Forty-two percent of employers offer unpaid parental leave, with 35% offering unpaid leave to both parents and 7% offering it only to mothers.

Employers most often offer five to 12 weeks of unpaid parental leave, according to the survey results.

Very few employers—only 5%—offer paid parental leave and only 3% offer paid medical leave to care for a sick family member, the survey showed.

Fifteen percent of employers allow workers to take an unpaid leave to care for sick family members and 20% allow employees to use their own sick leave to care for sick relatives.

The leaders in this area tend to be large companies and family-run businesses, Ms. Foster noted.

The survey also found that:

- 14% of employers offer adoption benefits.

The most frequently offered adoption benefit is reimbursement for legal fees, followed by reimbursement for the medical expenses of the birth mother and agency fees.

- 77% of employers offer employee assistance programs, typically to counsel workers for a wide range of problems, including marital problems and drug and alcohol abuse.

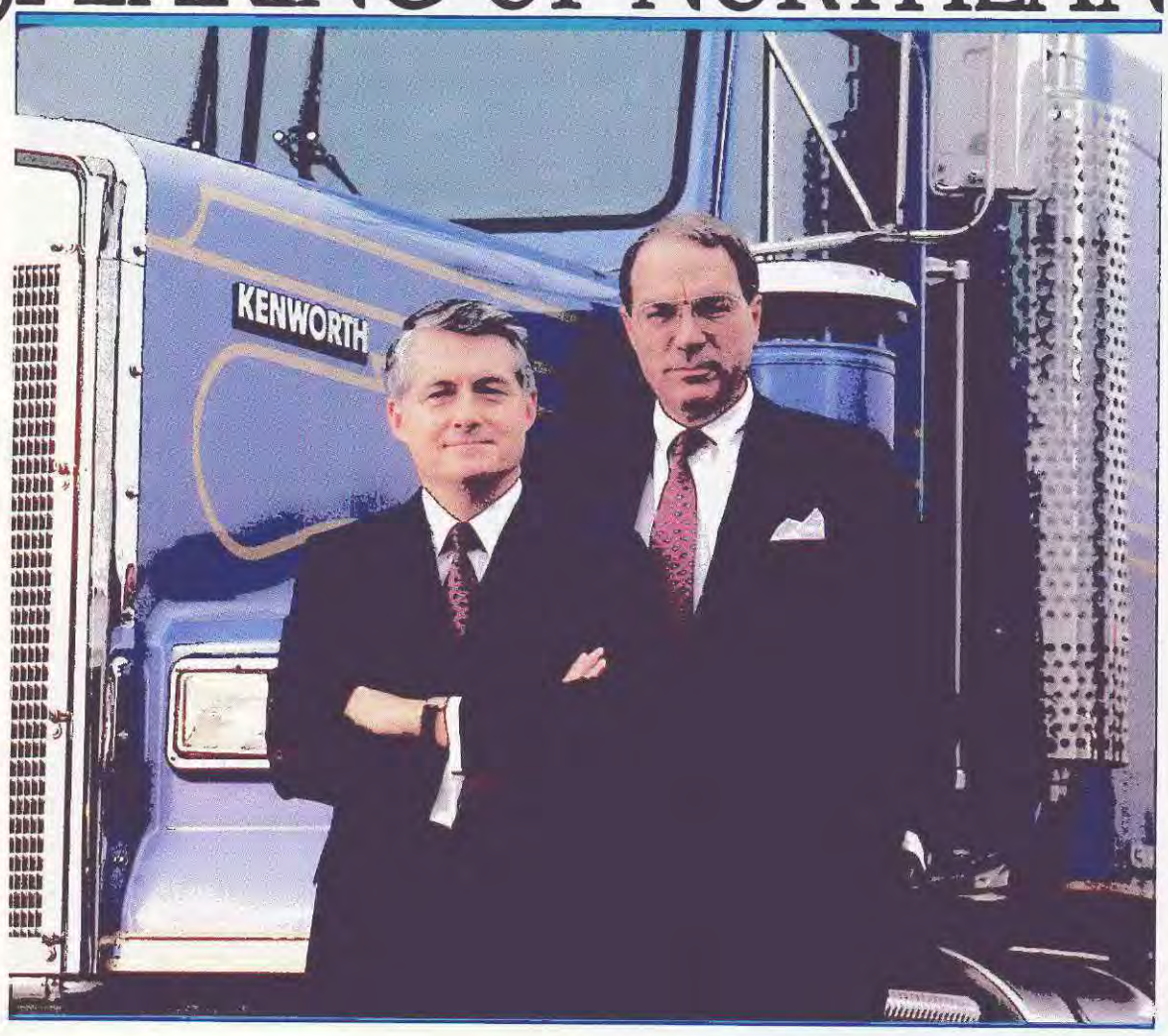
EAPs are "a cost-management strategy," because early intervention in these situations can help an employer save money in the long run, Ms. Foster said.

Among the employers offering EAPs, 61% contracted for services with an outside provider.

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A copy of the survey, "Work and Family Benefits Provided by Major U.S. Employers in 1990," is available for $10 from Cathy Schmidt, Hewitt Associates, 100 Half Day Road, Lincolnshire, Ill. 60069; 708-295-5000.

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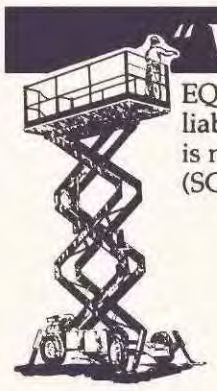
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Comings & goings: buyers

Rinaldi follows Chanzis at American Standard

Joseph A. Rinaldi, 41, has been named director of risk management at American Standard Inc., replacing **Norman B. Chanzis**, who has retired. Mr. Rinaldi, who had been assistant director of risk management, is responsible for worldwide property and casualty insurance programs, including insurance purchasing, risk identification, product liability, loss control, workers compensation loss control and fire protection. Mr. Rinaldi reports to Dale F. Maycen, vp and treasurer. Prior to joining American Standard—which makes plumbing, building, transportation, security and graphics products—Mr. Rinaldi was assistant casualty insurance manager at ITT Corp. in New York until 1980. Mr. Rinaldi holds a bachelor of arts degree in economics from City College of New York. In addition, Mr. Rinaldi is a deputy member of the Risk & Insurance Management Society.

Mr. Chanzis, 64, joined American Standard in 1973 after serving as risk manager for Columbia University and subsequently the Rheingold Corp., both based in New York. A longtime champion of tort reform and frequent contributor to *Business Insurance*, Mr. Chanzis was the 1988 recipient of the Richard W. Bland Memorial award, presented by the New York Chapter of the Risk & Insurance Management Society Inc. to risk managers who have influenced revision of laws to favor policyholders. Mr. Chanzis received the Bland award in part for his efforts as chairman of RIMS' Governmental Affairs Committee from 1984 to 1986in developing RIMS' position on expanding the Risk Retention Act and lobbying for the amendments, which Congress approved in 1986. In 1985 and 1986, Mr. Chanzis also chaired RIMS' CGL task force, which suggested revisions to the Insurance Services Office Inc.'s new claims-made commercial general liability policy form. In 1986, Mr. Chanzis received the RIMS Dorothy and Harry Goddell award for outstanding achievement in risk management and service to the society, becoming the only RIMS member to receive both of the organization's most prestigious honors.

Mr. Chanzis plans to start a consulting operation this fall.

* * *

Richard P. McEvily, 37, has been named staff vp-risk management and casualty claims of Hertz Corp. in Park Ridge, N.J. In this position, which had been vacant for a year, he oversees all risk management functions, including property/casualty insurance, workers compensation and loss prevention for both the car rental company and HCM Claim Management, a wholly owned subsidiary of Hertz Corp. In addition, he will be responsible for large liability claims, including field audits. Mr. McEvily will continue to serve as managing attorney for HCM Claim Management. His duties at HCM include litigation management and the preparation of proposals and agreements for HCM and its clients. Mr. McEvily reports to Thomas Santorelli, vp-insurance at Hertz and president-HCM Claim Management Corp. Prior to joining Hertz in 1989, Mr. McEvily was vp and general counsel for The Kaye Group of Companies in New York. Mr. McEvily has a bachelor of arts degree in history from College of the Holy Cross in Worcester, Mass., and a law degree from George Mason University in Fairfax, Va. He is a member of the American Bar Assn., the New York State Bar Assn., and the Virginia State Bar Assn.



Mr. McEvily

* * *

Connie Spevak, 37, has been named director of employee benefits for Domino's Pizza Inc. in Ann

Continued on page 26

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Physical Damage by Motors Insurance
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Comings & goings: buyers

Continued from page 24

Arbor, Mich. In this newly created position, Ms. Spevak is responsible for managing the development and administration of employee benefit programs at the pizza franchise company. Ms. Spevak will direct various insured and self-insured benefit programs, as well as manage insurance premiums, claims analysis and administration, government compliance and department budgeting. Ms. Spevak reports to Tim Carr, Domino's vp-finance. Prior to joining Domino's Pizza in April, she was the manager of employee benefits at Vickers Inc., a subsidiary of Trinova Corp., which is a manufacturer of power and motion control machinery with headquarters in Maumee, Ohio. Ms. Spevak holds a master's degree in business administration from the University of Toledo. Ms. Spevak is a member of the Toledo Personnel Managers Assn., the Toledo Employers Assn., the Toledo Benefit Managers Assn., and the International Society of Pre-retirement Planners. In addition, she is a member of the International Foundation of Employee Benefits.

* * *

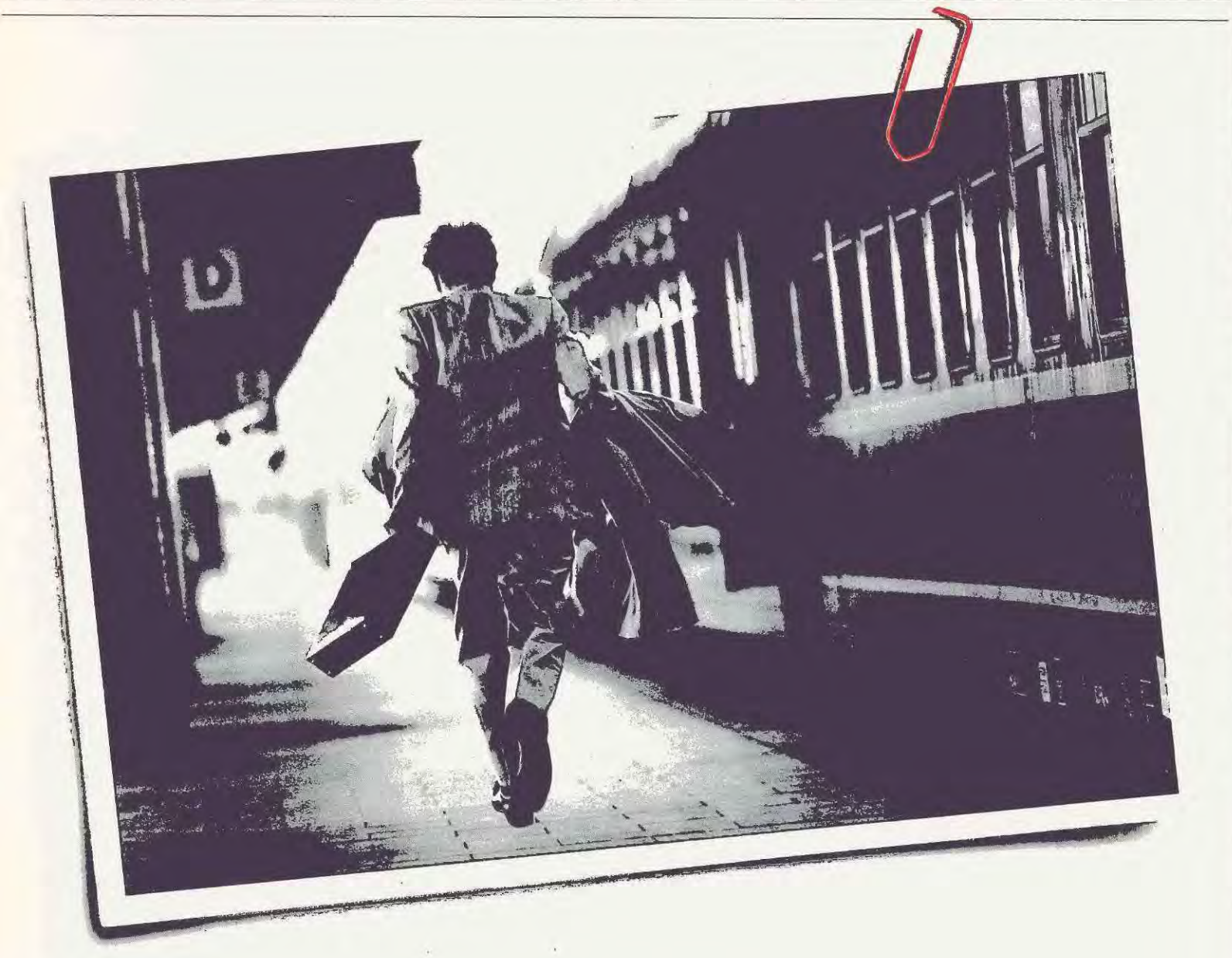
Patrick W. McCarthy, 40, has been promoted to assistant general manager-risk management of Matsushita Electric Corp. of America in Secaucus, N.J. In this newly created position, Mr. McCarthy is responsible for administration of property/casualty insurance, fire prevention and loss control for all of Matsushita's U.S. operations. Mr. McCarthy, whose most recent title was risk manager, reports to Ralph Pagano, general manager-finance. Before joining Matsushita of America—a consumer and industrial electronics company that makes Panasonic, Technics and Quasar products—in 1987, Mr. McCarthy was risk manager at Prudential Insurance Co. of America in Newark, N.J. He holds a bachelor of science degree in management from St. Peter's College in Jersey City, N.J. Mr. McCarthy is a deputy member of the New York Chapter of the Risk & Insurance Management Society and holds the Associate in Risk Management designation.

* * *

John Wagner, 47, has been named assistant treasurer and director of risk management of Hartmarx Corp. in Chicago. In this newly created position he will direct the company's risk management program which includes loss control, property protection, workers compensation cost containment, and purchase of property/casualty coverage. Mr. Wagner reports to James E. Condon, vp and treasurer. Prior to joining the clothing manufacturer and retailer in 1985 as corporate risk manager, Mr. Wagner served as director of insurance at Jewel Companies Inc., a supermarket chain with headquarters in Chicago. Mr. Wagner holds a bachelor of science degree in industrial management from Lake Forest College in Lake Forest, Ill. Mr. Wagner is president of the Chicago Chapter of the Risk & Insurance Management Society and also has taught courses at the Insurance School of Chicago, a property/casualty underwriting school.

•

Business Insurance would like to report on staff changes in your company's risk management, safety and employee benefits departments. Please drop a note to Nancy Johnson, Copy Editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611-2590, or call 312-649-7784. Please send a photograph along with the information.



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Liberty Mutual, Winterthur form venture

Liberty Mutual Insurance Co. is expanding its international capabilities through an agreement with Winterthur Swiss Insurance Co.

Through the Global Insurance Program, Winterthur will underwrite primary coverages, including general liability and automobile insurance, for overseas operations of U.S. multinational companies, said Frank E. Hokenson, vp and manager of national sales for Boston-based Liberty Mutual.

In addition, the Winterthur, Switzerland-based insurer—which operates in 50 countries—will provide claims and loss prevention services, he said.

U.S. companies with operations abroad will be able to "get similar limits and coverages on a basis that they are accustomed to buying," Mr. Hokenson said. Multinational clients will deal with one account representative to ensure continuity, he added.

Markets

This arrangement will allow Liberty Mutual, which now has foreign offices only in London and Bermuda, to offer worldwide services, Mr. Hokenson said. Liberty Mutual this summer plans to create an international department in the United States that will "coordinate coverages with Winterthur," he adds.

And, he says, "We expect in the future that Liberty Mutual will write a master contract that will fit over the top of the Winterthur policies written statutorily in each country."

Liberty Mutual's decision to expand was influenced by the expected influx of business into Europe as trade barriers within the European Community are removed in 1992, he said.

For more information, contact Frank E. Hokenson, Vp/Manager-National Sales, Liberty Mutual Insurance Co., 175 Berkeley St., Boston, Mass. 02117; 617-357-9500.

A&A global units

Alexander & Alexander Services Inc. is creating a network of "business units" in branch offices worldwide to assist risk managers with multinational exposures.

The 25 units—composed of specialists in multinational insurance and risk management—will help the New York-based broker centralize its resources to help companies with far-flung operations, said Ron W. Forrest, senior vp and managing director of global business development.

"By reinforcing common standards and procedures, we can provide more uniform quality service on an international scale," he said.

For instance, the units will help clients tap into A&A's captive management and loss control services as well as its Anistics Inc. risk management consulting arm.

Service for these clients needs to be "very specialized because of the different insurance laws and languages" in foreign countries, Mr. Forrest explained. Units are to be staffed by those especially knowledgeable about insurance and risk management needs in particular regions.

The global units will operate in the United States in: Boston; Philadelphia; New York; Chicago; Minneapolis; Detroit; Los Angeles; Atlanta; Dallas; Houston; and Austin, Texas.

In Canada, global units will be based in Toronto and Vancouver, British Columbia.

Outside North America, units will be located in: Sao Paulo, Brazil; London and Manchester, England; Brussels, Belgium; Paris; Cologne, West Germany; Milan, Italy; Amsterdam, The Netherlands; Lisbon, Portugal; Barcelona, Spain; Stockholm, Sweden; Zurich, Switzerland; Istanbul, Turkey; Auckland, New Zealand; Melbourne and Sydney, Australia; Tokyo; Riyadh, Saudi Arabia; and Singapore.

For more information, contact Thomas J. Drag, Director of Global Account Service, Alexander & Alexander Services Inc., 220 E. 42 St., New York, N.Y. 10017; 212-973-4060.

J&H in Thailand

New York-based broker Johnson & Higgins has expanded its operations to Bangkok, Thailand.

J&H's UNISON partner, Jauch & Hubener, a brokerage in Hamburg, West Germany, has formed a joint venture with PB Group Co. Ltd., a private company with interests in shipping, real estate, manufacturing, retail sales and insurance in Bangkok.

The new company will be known as Johnson & Higgins/PB Co. Ltd.

It is to provide insurance and reinsurance brokerage services, risk management and employee benefit consulting services to local subsidiaries of multinational accounts.

UNISON is a worldwide brokerage network assembled by J&H, the world's fourth-largest broker based on 1989 gross revenues of $785.9 million.

For more information, contact Eric D. Schroder, Office Manager, Johnson & Higgins/PB Co. Ltd., 17 Sukhmuvit 4 (nanatai), Bangkok 10110 Thailand; 662-253-0100.

Operating changes

Los Angeles-based broker Swett & Crawford Group recently formed a new underwriting management division called Swett Insurance Managers. The division will operate independently from the company's brokerage units and will be responsible for underwriting and binding policies within the entire Swett & Crawford organization.

CIGNA venture

CIGNA Corp. has signed an agreement with Yasuda Mutual Life Insurance Co. of Tokyo to provide employee benefit coverages and services to U.S. subsidiaries of Yasuda policyholders in Japan.

The agreement is based on a quota-share reinsurance arrangement in which Philadelphia-based CIGNA will underwrite experience-rated coverages for the subsidiaries and cede 50% of this business to Yasuda. However, not all coverages will be subject to the arrangement. For example, CIGNA's long-term care business with the subsidiaries will not be subject to the arrangement.

To qualify for coverage under the reinsurance agreement, a Yasuda policyholder must have at least 150 employees.

In addition, Yasuda agreed to sell a variety of CIGNA's employee benefit products to Japanese cli-

Continued on page 30

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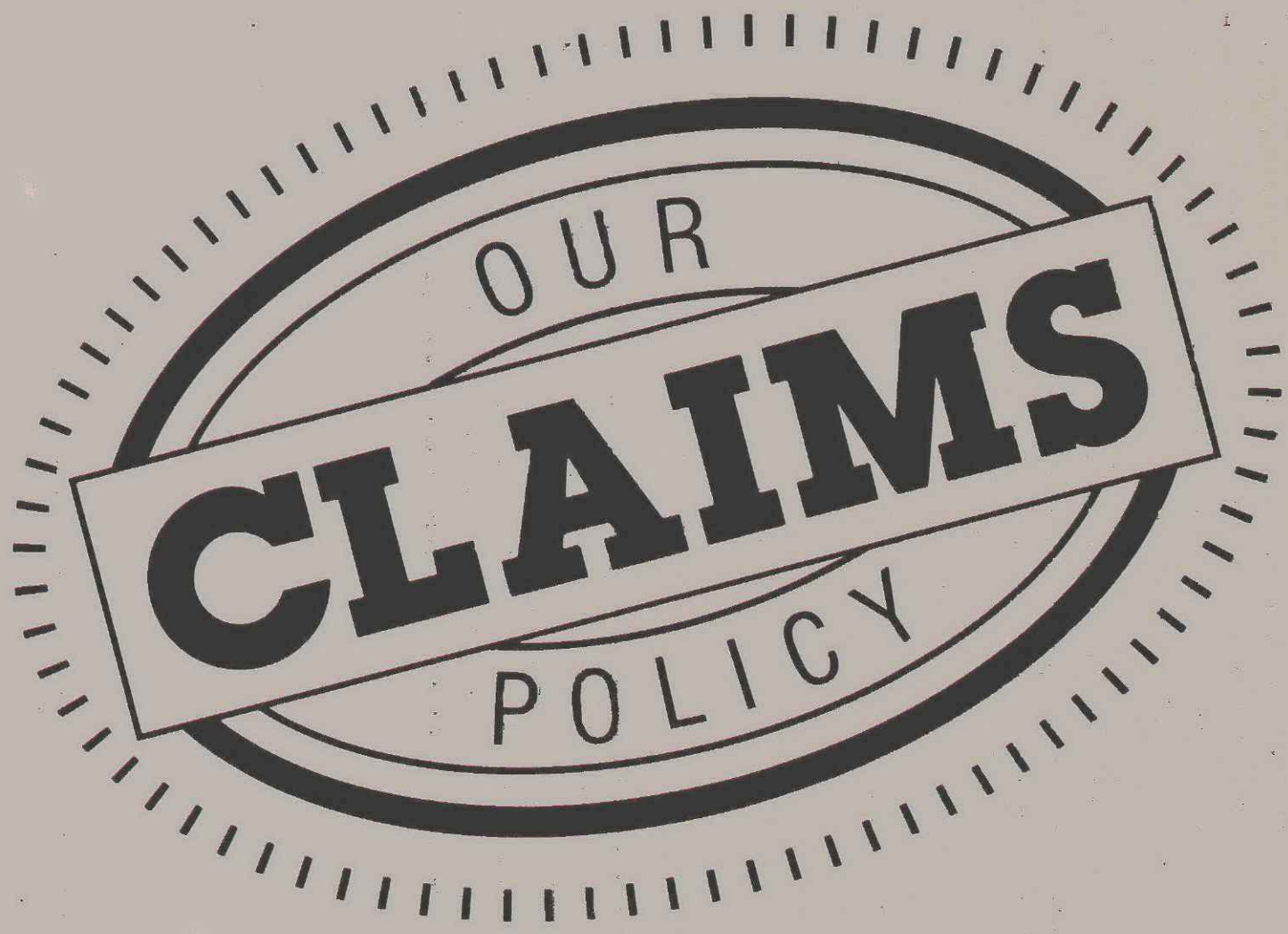
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Markets

Continued from page 28

ents, including group life and conventional group health insurance, accident insurance and group pension products. Products can be purchased through any CIGNA office that handles international business.

The arrangement differs from traditional reinsurance "because we aren't doing monthly accounting and there is no reserve transfer," says Virginia Hollis, CIGNA vp of multinational employee benefits.

"We process and handle the claims, and at the end of the year we look at the bottom line. If we are in a loss situation, Yasuda will pay us half the loss and if there is a profit, CIGNA will pay them half of that," she said.

The arrangement makes administration easier and "accomplishes the sharing of profit and loss without increasing the work load significantly," Ms. Hollis added. CIGNA will benefit from the Japanese business, Ms. Hollis said, while "Yasuda will get to share in the U.S. risk and learn about the U.S. insurance market without having to buy a U.S. insurance company."

Ms. Hollis said CIGNA hopes to expand such agreements to other countries.

For more information, contact Virginia W. Hollis, Assistant Vp-Multinational Employee Benefits, CIGNA International Financial Services-B249, Bloomfield, Conn. 06152; 203-726-5374.

Gay & Taylor acquired

European International Reinsurance Co. Ltd., headquartered in Bridgetown, Barbados, has acquired Gay & Taylor Inc., a Winston-Salem, N.C.-based claims adjusting and risk services subsidiary of Seibels Bruce Group Inc. based in Columbia, S.C. Terms were not disclosed.

European International is majority owned by a group of U.S. investors and minority owned by Swiss Reinsurance Co. in Zurich, Switzerland. The existing business of Gay & Taylor will be carried on under its present management.

Although Gay & Taylor was purchased by European International, it will report to Swiss Re in Zurich.

Mergers/acquisitions

Buck Consultants Inc., a New York-based employee benefit consulting firm, has expanded its Australian consulting operation by acquiring the Sydney, Australia, consulting practice of Palmer Gould Evans, an independent benefit consulting firm. Consultants from Palmer Gould Evans will work out of Buck Consultants Pty. Ltd., headquartered in Crows Nest, outside Sydney.

Minneapolis-based **Employee Benefit Plans Inc.** completed a non-stock purchase of **August International Inc.**, a managed health care company in Orange, Calif. EBP purchased the assets of August International, including the right to continue operating the business by maintaining its customer list and revenue stream. The new company, called August Healthcare Services Inc., will be a wholly-owned subsidiary of EBP.

Jackson, Miss.-based agency **Ross & Yerger Inc.** merged with **Hutto & Co.**, an agency in Tupelo, Miss. No staff or business changes are anticipated, but Hutto & Co. will now operate as Hutto/Ross & Yerger Inc.

Healthsource Inc., a managed care network in Concorde, N.H., plans to acquire **Employee Benefit Plan Administration Inc.**, a third-party administrator in Hampton, N.H.

Bayside Insurance Marketing Inc. in Menlo Park, Calif., acquired **James Calloway & Associates**, also in Menlo Park. Both companies provide employee benefit programs to Bay Area business. Calloway & Associates will operate under the Bayside name and retain its offices in Menlo Park.

The **Galtney Group Inc.**, a medical malpractice insurance broker in Houston, acquired **Professional Risk Management Services Inc.**, a third-party administrator based in Washington, D.C., that specializes in professional liability and group health insurance claims. PRMS will retain its offices and client base and will operate as a subsidiary of the Galtney Group.

St. Louis-based **Travers & As-**

Continued on page 36



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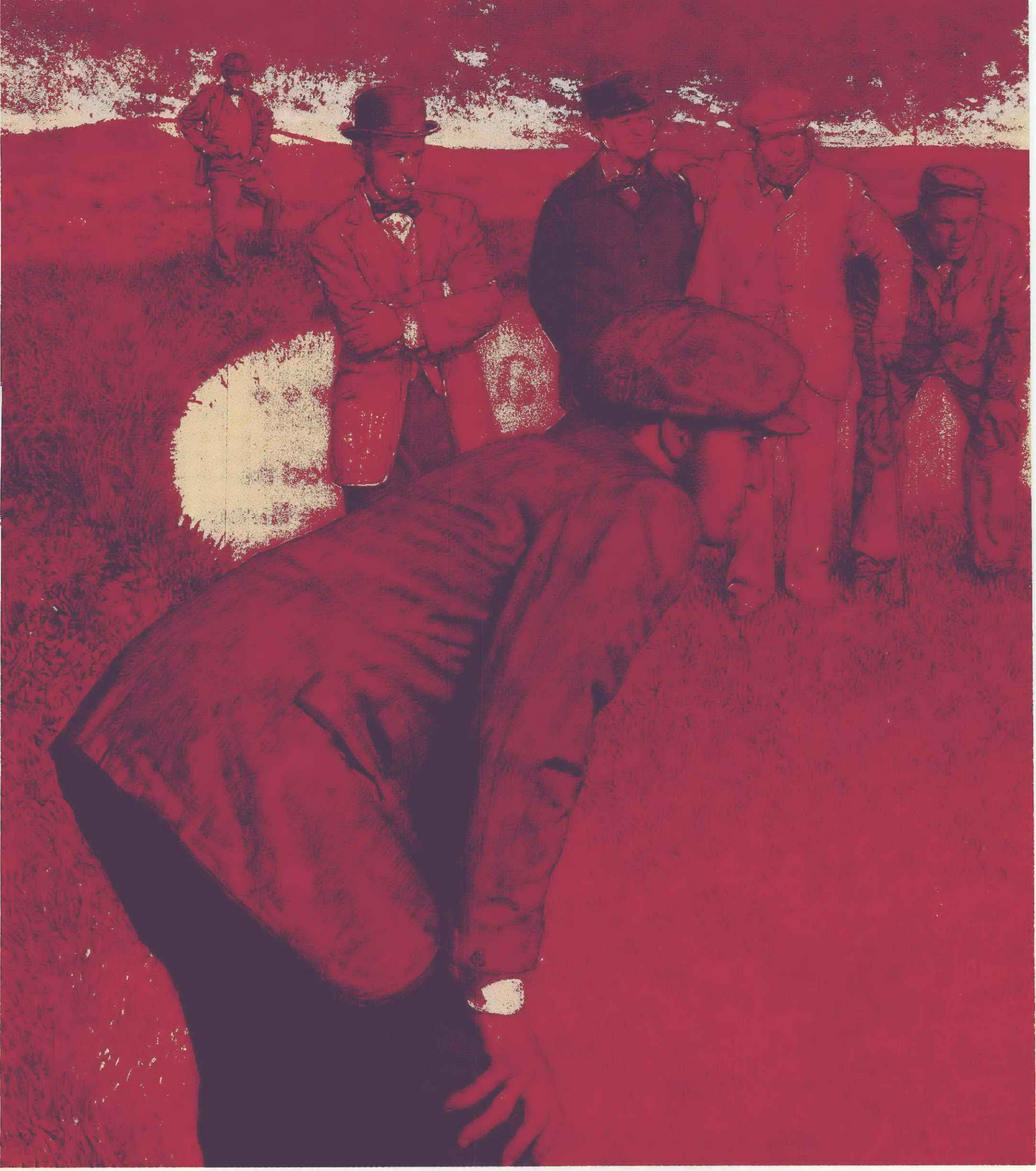
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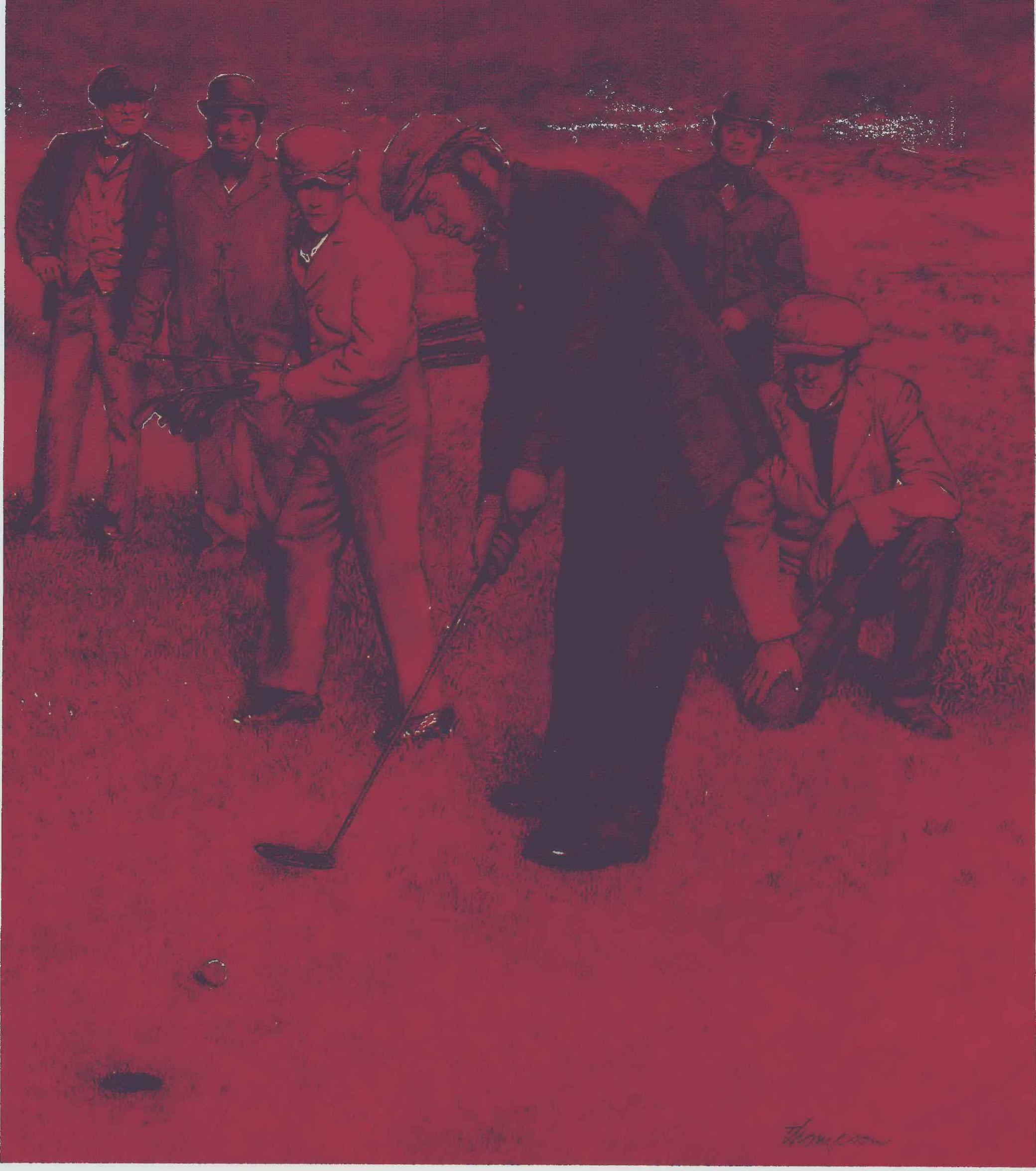
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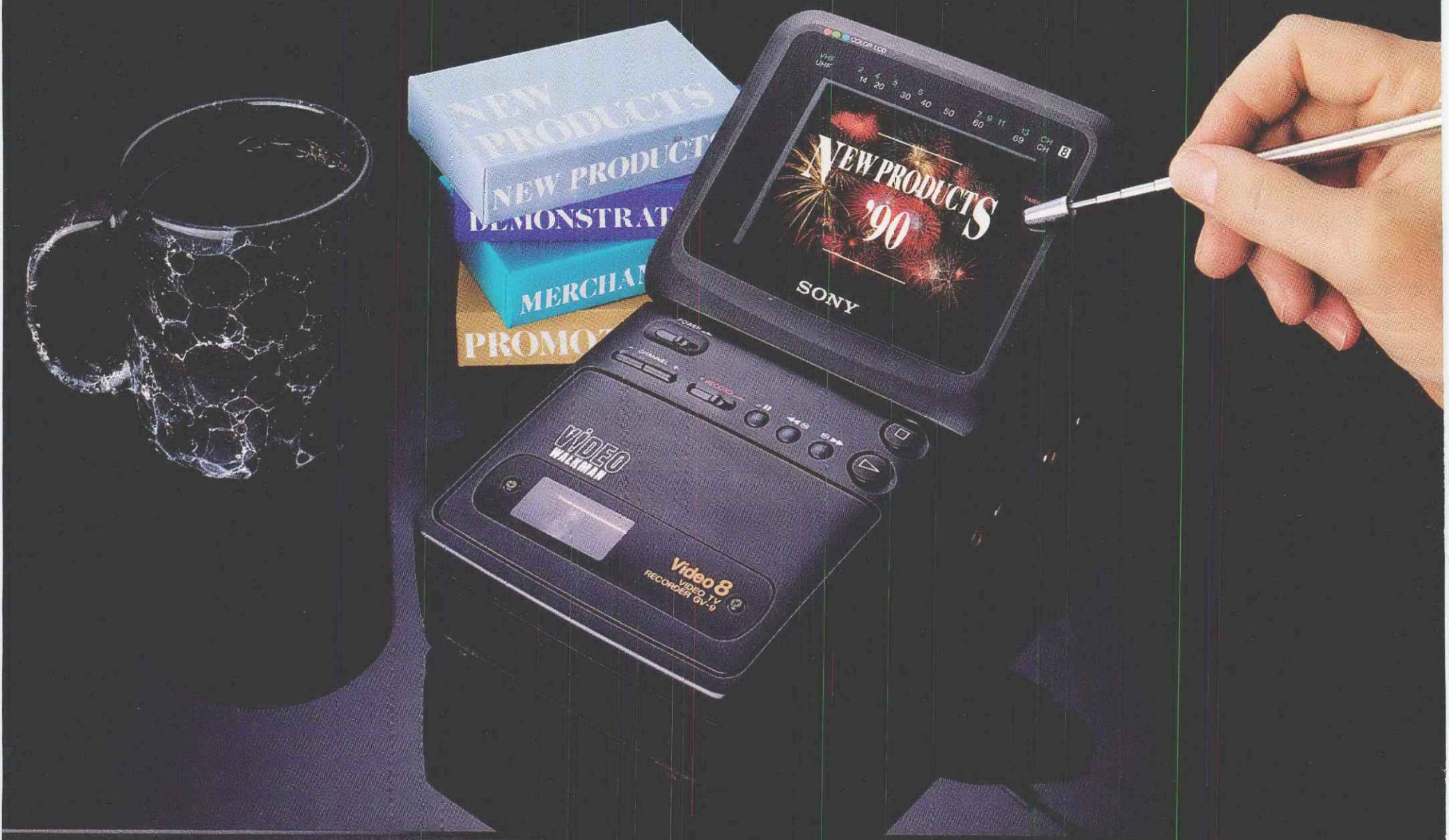
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Q **Could you explain, in simple language, what the National Council on Compensation Insurance's change in the experience rating plan is? Is there any easy way to get an idea of how it will affect us? Why is this change occurring?**

A The experience rating plan is itself quite technical. So explaining the nature of the National Council on Compensation Insurance's changes in the plan cannot easily be done unless we start looking at a simplified version of the formula.

The basic idea behind experience rating is to arrive at a better prediction of a risk's loss experience for the upcoming policy period. Two different types of evidence are examined in doing so.

The first is actual loss experience of the risk during three recent policy years The second is an estimate of what the loss experience would have been if the risk were typical. This "industry experience" estimate is based on a series of calculations. For each classification of employees within your company, there is a statewide average ratio of losses to payroll. This loss rate is multiplied by your payroll to come up with "expected" losses. Added all together, you have the total expected losses for your company.

These two pieces of evidence, your actual losses and your expected losses, are then weighted, coming up with a final estimate of the extent to which your company's losses will vary from the expected during the next policy period. The larger your company, the more weight will be given to your own experience.

The more claims you typically have, the more valuable your past experience is as a basis for estimating future losses. If you see at most one or two claims a year, your total losses would vary all over the lot from year-to-year. Your past experience would not be 100% reliable as an indicator of what your future experience will be. But, if you normally had 500 claims a year, your total losses would probably not vary much from year to year, and your recent history would be more indicative of future losses.

The left side of the accompanying chart should give you an idea, according to the size of your three-year expected losses, of the relative amount of weight given in the old formula to these pieces of evidence: your own loss experience and your expected loss experience (assuming your company conformed to some industry average).

For example, if your annual payroll were relatively small, generating $10,000 of three-year expected losses, then your experience mod (under the old formula) would be determined by giving 14% weight to your own experience and 86% to industry experience.

If, however, you were a larger risk, say with $500,000 of three-year expected losses, then the experience mod would be calculated by giving 68% weight to your experience and only 32% to industry experience. Suppose that your actual loss experience was 50% better than expected assuming industry averages. Then, your experience mod would be 0.66 (68% of 0.5 plus 32% of 1.0).

The actual experience mod formula is based on this weighting (or credibility) principle, but splits losses into primary and excess portions. For purposes of illustration, I made several simplifying assumptions in deriving the chart.

Using similar assumptions for the new NCCI formula, we get the results displayed in the right side of the chart. By comparing these two halves of the chart, we can see in this oversimplified situation that quite a bit more weight is given to your own experience by the new formula if your company is a small to medium-sized risk.

For a few larger risks, loss experience will be given less weight than it previously had been when determining your mod.

The new plan actually results in giving more weight to your own primary experience—and, thus, to claims frequency—regardless of the size of your company. We end up with the above results because the new plan gives significantly less weight to excess losses for large risks. This reduction in credibility for large losses results in such a significant decline in their impact on the mod that the overall weight given to a large risk's experience actually declines even though more weight is given to its primary experience.

Based on the above analysis, or a similar review, it would be tempting to try to generalize the nature of changes in the plan. The problem is that, as often as not, generalizations about the new plan like the following will not hold true:

- If your company is a small to medium-sized risk (i.e., your three-year expected losses are less than $300,000) and your experience has been better than average (i.e., mods well under 1.0), then your new mod will probably be lower. If your experience has been worse than average (i.e., mods well over 1.0), then your new mod probably will be higher.
- If your company is a large risk (with three-year expected losses more than $300,000) and your experience has been better than average, then your mod may be higher under the new plan. If your experience has been worse than average, then your new mod will probably be lower.

It is dangerous to use supposed rules of thumb like the above because there are so many exceptions. Some reasons why frequent exceptions occur include:

- Your excess experience is worse than average while your primary experience is better than average.
- Your excess experience is better than average while your primary experience is worse than average.
- Your loss experience during the most recent policy year used in calculating your mod is quite different from that of the oldest policy year used in the calculation of your last mod.

For example, if your new policy will cover 1991, then your new mod will be based on your experience during policy years 1987, 1988 and 1989. Your mod for policy year 1990 was based on your experience for policy years 1986, 1987 and 1988. If your loss experience in policy year 1989 was much different than it was in 1986, your mod may change a great deal because of that fact alone. Even if your loss experience in each of those two years was about the same, relative to industry averages, it still may be quite different because of the presence or absence of large claims.

- Your loss experience during the two policy years that are part of both the old and new mod calculations (1987 and 1988 in the above example) may have changed a great deal in the past year because of loss development. Substantial reserve increases or decreases might have occurred in the past year for these older policy years.
- The definitions for splitting primary from excess losses, as well as the large loss limitations, are different under the new plan. Depending on the actual sizes of your larger claims, the actual impact of the new plan on your mod will not necessarily follow the general pattern.
- Not all of the experience used in calculating your new mod was available last year. So, nothing stays the same and the idyllic state of "everything being equal" never happens.

The change in the formula was brought about by research done by the NCCI. They tested the old formula for its ability to predict subsequent loss experience. A broad range of alternative formulas were tested. The new formula was chosen because it proved to be the best predictor—among all those tested—of subsequent experience.

How did the NCCI do this? They took loss experience for experience-rated risks in 15 states over several years. They then took the experience from the oldest policy years and used it to predict the experience during the most recent policy year in their data base.

Comparison of old and new experience rating formulas

Three year expected loss	Approximate old formula: Weight assigned to: Your experience	Approximate old formula: Weight assigned to: Industry experience	Approximate new formula: Weight assigned to: Your experience	Approximate new formula: Weight assigned to: Industry experience
$2,500	4%	96%	12%	88%
10,000	14	86	26	74
25,000	22	78	36	64
100,000	38	62	46	54
250,000	50	50	54	46
500,000	68	32	60	40
1,000,000	98	2	64	36
5,000,000	100	0	70	30

BI/CYNTHIA WATSON

The whole purpose of changing the formula has been to improve equity among risks in determining experience-rated premiums. What the NCCI's tests showed was that the experience of smaller risks was not being given enough weight in the old formula and the experience of larger risks was being given too much weight.

The new experience rating plan will better reward a greater emphasis on loss control. Because the new plan increases the responsiveness of the mod to claim frequency for both small and large risks, the incentives for loss control will be increased over the old plan. This should be of benefit to everyone.

The new plan will result in smaller changes in the experience mod when one or two large claims occur. This is as it should be, because large claims are often the result of chance events. On the other hand, the formula gives substantial weight to the volume of small to medium-sized losses. That volume is a much better indicator of whether a company is a better or worse than average risk. ■

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

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



Mr. Sherman

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

Mr. Sherman's and Mr. Miner's columns appear alternately on the first Monday of each month. Ms. Werner's and Mr. Duva's columns appear alternately on the second Monday of each month. Mr. Sherman's next column will appear in September.

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

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Markets

Continued from page 30

sociates, a broker specializing in aviation insurance, acquired **Airsurance Inc.** of Indianapolis. The company's Indianapolis office will operate as Travers & Associates.

The Protector Group Insurance Agency Inc. in Worcester, Mass., acquired the **Paul J. Woodcome Insurance Agency Inc.**, which has offices in Leominster and Townsend, Mass. The latter agency will keep the Woodcome name.

San Francisco-based broker **American Business Insurance Inc.** through its subsidiary Gold Cities Insurance in Grass Valley, Calif., acquired the Reno, Nev. branch office of **Corroon & Black Corp.** The office will remain in Reno and operate under the name American Business Insurance Brokers of Nevada Inc. ABI is the nation's 12th-largest insurance broker, reporting 1989 gross revenues of $57 million.

Corroon & Black Corp. in New York acquired **Griffith/Sincock Insurance Brokers Inc.**, a regional firm based in Santa Ana, Calif. The firm, which reported gross revenues of $4.7 million in 1989, will remain a separate entity. C&B is the nation's fifth-largest brokerage with 1989 revenues of $456.8 million.

Information Strategies Inc. and **Exchange Connections Inc.**, both of Minneapolis, have merged operations. The new company, Exchange Resources Inc., will provide business consulting and computer training as well as emergency data processing sites. The address is 5700 Green Circle Drive, Minnetonka, Minn. 55343; 612-933-6340.

Brookfield, Wis.-based **Northwestern National Holding Co. Inc.** plans to acquire **SICO Inc.**, the Indianapolis-based parent company of Statesman Insurance Co. Statesman, also located in Indianapolis, reported 1989 premiums written of $44 million and serves property/casualty insurance clients primarily in Pennsylvania and Indiana.

Karr Rehabilitation Services Inc., a medical case management company in Minneapolis, acquired **Vocational Resources of Washington Inc.**, a vocational and medical case management firm in Seattle. Vocational will become a subsidiary of Karr, retain its own name and maintain offices in Spokane, Olympia and Vancouver, Wash.

Dallas-based **Modern America Corp.** was re-acquired from **CNA Financial Corp.** in Chicago by its founder, V.F. Martin, along with three other investors. Mr. Martin founded Modern America in 1960, sold it to CNA in 1971 and served as chairman until 1980. He is now chairman and president of the firm, which develops low-cost group insurance packages for small, independent businesses and trade associations.

Tyler, Texas-based claims administrator **Lindsey & Newsom Claims Services Inc.** acquired **Northern Maine Adjusters Inc.** The firm's two offices in Old Towne and Presque Isle, Maine, will assume the Lindsey & Newsom name.

Lawrence Agency Corp., a subsidiary of the Lawrence Group Inc. and the nation's 16th largest brokerage with 1989 revenues of $33.4 million, acquired **Diversified Insurance Services Inc.**, a commercial lines agency in Greensboro, N.C. A.W. Lawrence & Co. of North Carolina Inc. and Diversified will share the acquired company's facility and both will do business under the name Diversified Insurance Services Inc.

In addition, San Diego, Calif.-based **Robson, Cavignac & Associates**, another subsidiary of Lawrence United Corp., acquired **Pro Insurance Services of San Diego Inc.**, an agency in Rancho Bernardo, Calif. The five-person agency will maintain the Pro Insurance name and will be managed by Jim Young, vp of Robson, Cavignac & Associates.

New offices

Marsh & McLennan Cos. Inc. in New York will open its first office in East Germany to serve clients needs in Eastern Europe. The new office, to be located in East Berlin, will be operated by Gradmann & Holler Inc. in Stuttgart, West Germany, which became a wholly owned brokerage unit of M&M in 1989.

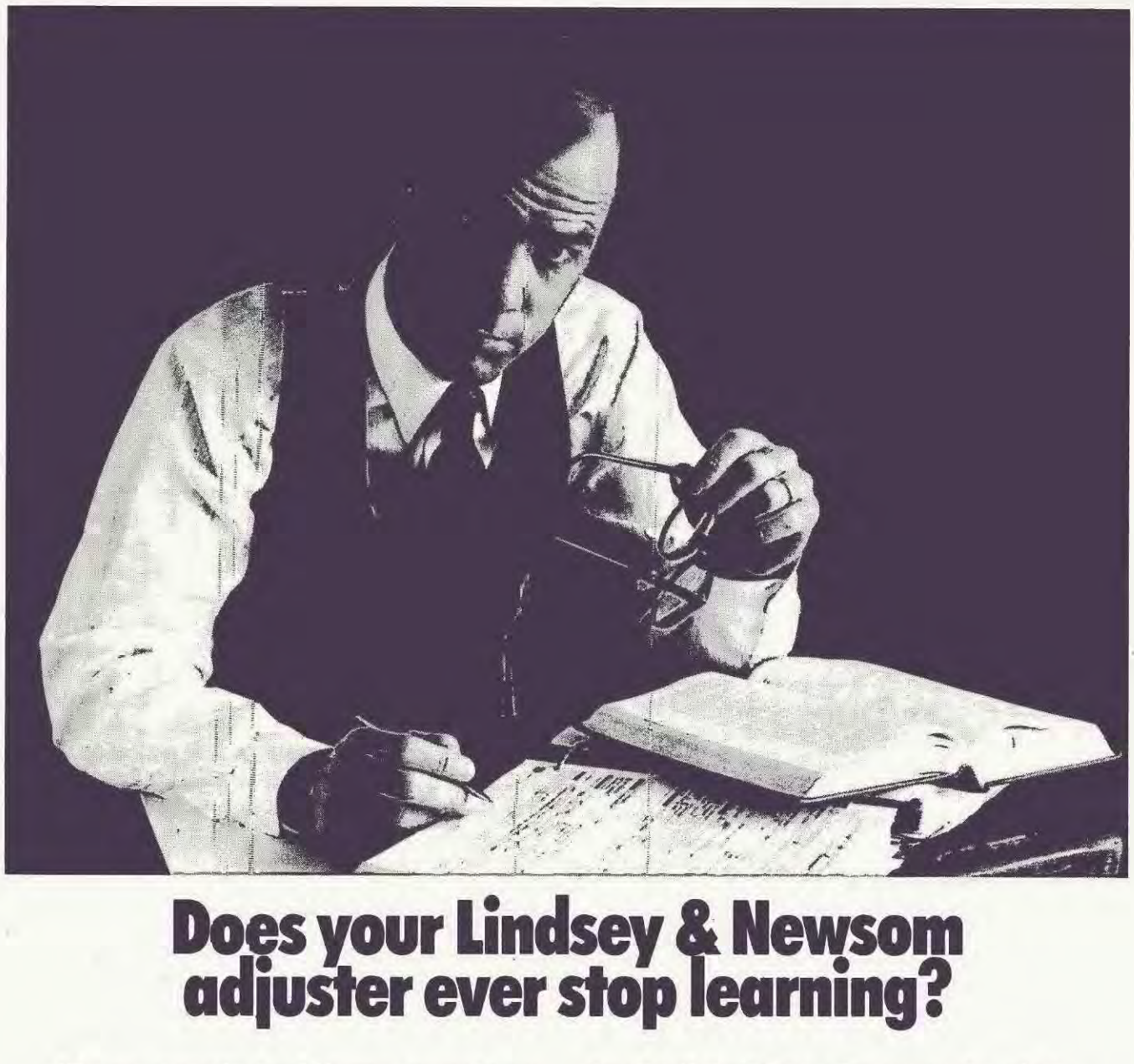
In addition, M&M plans to establish a client service center in its Vienna, Austria, office to provide services and develop insurance market relationships in Bulgaria, Czechoslovakia, Hungary, Poland, Romania and Yugoslavia.

Market Finders Insurance Corp., a surplus lines broker based in Louisville, Ky., opened a new office at P.O. Box 750248 Dayton, Ohio 45475; 513-435-0950.

Name changes

The **Center for Corporate Health Promotion**, a Reston, Va.-based cost containment company, changed its name to **The Center for Corporate Health Inc.**

The Hardy Group Inc., administrative and underwriting managers for Associated Physicians Insurance Co. in Hoffman Estates, Ill., changed its name to **Associated Physicians Management Co. Inc.** ■



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Insurers' views

Continued from page 1

by plentiful capacity, despite deteriorating combined ratios and the huge catastrophic losses they suffered in 1989 from Hurricane Hugo, the San Francisco Bay-area earthquake and other disasters.

And some insurers blame the extended soft insurance market on insurers' insatiable appetite for market share and a lack of managerial foresight.

The longer the current market continues, the more likely a violent contraction becomes, some insurance company executives warn.

For the time being, insurers are satisfied with whatever price increases they can get.

"Depending on the account, we're getting increases on some and decreases on others," said Keith Hynes, senior vp-underwriting for Hartford Steam Boiler Inspection & Insurance Co. in Hartford, Conn.

However, "there are very, very few customers we are willing to reduce premium for," Mr. Hynes said.

"Six months ago, I'd have said 'a few customers.' That represents a firming in the market."

Continental Corp. is seeking a 5% to 10% rate increase on all lines, said George Ramsdell, a Cranbury, N.J.—based senior vp and chief underwriting officer.

"We are seeking and obtaining modest rate increases across all lines of business," said Carl J. Santillo, executive vp-insurance operations for Employers Insurance of Wausau, a Wausau, Wis.-based affiliate of Nationwide Mutual Insurance Co. of Columbus, Ohio.

Arkwright Mutual Insurance Co. is seeking premium and deductible increases for risks that have had frequent losses and those with very large exposures, said Dick Roth, senior vp of marketing for the Waltham, Mass.-based insurer.

The property/casualty units of Transamerica Corp. in Woodland Hills, Calif., are seeking 5% to 10% rate increases, and buyers generally are not balking, said Dick Wrattan, president of Transamerica's commercial insurance division.

Kemper Group of Long Grove, Ill., insists on increases and is seeking a 5% on average increase on renewal, said Keith Like, executive vp of Kemper's national property/casualty companies.

On average, Kemper has been able to get 3% to 4% increases, he said.

"We are hoping we can inch it up," he said.

Some insurers report they are imposing very small increases—even if just to get policyholders used to the idea of rising prices.

For example, Hartford Steam Boiler is "trying to get an increase by changing the psychology of the buyer," Mr. Hynes said. He said buyers should realize "it's time for a premium increase—even if their experience is good. Even if the increase is modest, it switches the psychology of the buyer from expecting a premium decrease."

But, he said, "the premium increases have not equaled inflation. It's a premium increase lower than the rate of inflation over the first five months of this year."

Kemper's Mr. Like shared that assessment of the boiler and machinery price level. "It's doing very little and it's much too low."

Meanwhile, insurers say that directors and officers liability insurance rates are only flat to modestly higher than six months ago.

D&O rates for non-profit organizations are stable, but those for corporations "bounce around a lot," said Thomas Kelsey, executive vp for the property/casualty insurance companies of Warren, N.J.-based Chubb Corp.

"It depends on the individual risk," he said.

Mr. Kelsey said that rate increases generally result from changes in exposure, such as acquisitions.

Offshore alternative risk financing mechanisms report they see some D&O pricing stability.

"We've seen rates bottom out. They're trending up a bit because they went down so far in the previous two years and claims have continued to escalate," said Walter Scott, president of Bermuda-based A.C.E. Insurance Co. Ltd.

A.C.E. is not increasing D&O rates, he said.

The company has always strived for stable rates, according to Mr. Scott. "A.C.E. followed the D&O market down to a point, but we drew a line and held onto our own rates. That is one reason we're not following" other D&O insurers' requests for rate increases.

Buyers can expect a 5% to 10% increase in D&O premiums when

Continued on next page

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Insurers' views

Continued from previous page

their exposures have increased, said Brian O'Hara, president and chief executive officer of X.L. Insurance Co. Ltd. in Barbados.

National Union Fire Insurance Co. of Pittsburgh, Pa., is also seeking rate increases, according to Jeffrey Greenberg, president of the American International Group Inc. unit.

"Negotiations for rate increases on most accounts began last fall. Claims continue to rise at a double-digit rate," Mr. Greenberg said.

"Claims are on the rise in both D&O and primary liability and both are getting rate increases," he said. He noted that in some cases National Union is requesting double-digit rate increases.

Wausau is increasing primary liability insurance rates 5% to 10% on renewal, Mr. Santillo said.

Selective Insurance Co. of America, a regional company whose business is primarily east of the Mississippi, also has increased primary general liability rates 5% to 10%, according to Frederick H. Jarvis, chairman, president and chief executive officer of the Branchville, N.J.-based insurer.

"I think there's a firming," Mr. Jarvis said.

But, Mr. Kelsey of Chubb said the primary general liability market is "kind of flat."

Kemper's Mr. Like agreed, saying the primary general liability market is "just sitting there."

Mr. Like also said lower layer excess coverage remains competitive.

Insurers also reported a range of rate activity for higher layer excess liability insurance.

Mr. Kelsey said that high-layer excess rates were "all over the place."

Mr. Scott of A.C.E. said excess liability insurance rates are flat.

X.L.'s Mr. O'Hara agreed, saying that excess liability accounts are being renewed at existing rates, or at increases of 5% or less.

Commenting on the excess liability market as a whole, Mr. O'Hara said, "There has been a lot of loss activity in the excess liability market, but it hasn't affected rates at this point."

'We can't go through the seesaws and roller coasters we saw in the last cycle' says Mr. Vairo.

Insurers report little rate movement for surety and bankers bond coverage.

"Our basic book of surety business hasn't gone up or down," said Kemper's Mr. Like.

But, Selective is getting some increases in surety, Mr. Jarvis said.

In addition, the insurer has become very careful about writing coverage for small contractors, he said.

Chubb's Mr. Kelsey called surety rates "flat" and the bankers bond market "soft."

Meanwhile, property rates, regardless of the size or nature of the risk, have remained static and in some cases dropped, insurers say.

"I'm continually amazed by that. They're still soft and still under pressure," said Robert J. Vairo, chairman, president and chief executive officer of Crum & Forster Inc. of Basking Ridge, N.J.

"Things are pretty much flat," said Michael McIntyre, senior vp-staff marketing for Allendale Mutual Insurance Co. of Johnston, R.I.

Mr. McIntyre said that there has been "certainly no increase" in rates for highly protected risks. Indeed, rates have fallen half a percentage point or so and, taking inflation into account, the actual decrease is greater, he explained.

On broker-generated commercial property coverages written by Allendale units Affiliated FM Insurance Co. and Appalachian Insurance Co., "we can put new business on but we see business leave us," Mr. McIntyre said.

Regarding property rates in general, "for the most part, the good accounts are still writing their own ticket," Mr. McIntyre said.

Kemper's Mr. Like agreed. He said large property risks remain "extremely underpriced, and if anything, edging slightly lower."

"More than half of our customers will see no increases in rates this year" for their property coverage, Arkwright's Mr. Roth said.

The remainder can expect rate hikes and higher deductibles or some combination of both, he said.

However, Wausau is getting "modest" hikes—up to 5%—on property risks, including HPR risks, Mr. Santillo said.

Even though insurers say rates are inadequate for several lines, they are not adding restrictive policy wording to any great degree.

"We don't think restricting policy wording does a lot to protect you from losses," Mr. Ramsdell of Continental explained.

Rather, loss control and improved safety techniques are their primary tools to prevent losses, insurers say.

"Our best ability to reduce losses in through loss prevention and engineering," said Hartford Steam Boiler's Mr. Hynes.

Those insurers insisting on some rate hikes say they are not afraid to give up unprofitable accounts that balk at the increases.

"We have no interest in writing or renewing business that can't create an expectation of a modest profit," said Wausau's Mr. Santillo.

Wausau has "walked away" from some accounts, which is "a very painful process," he said.

Continental also is "willing to lose business but largely in places that are draining surplus," Mr. Ramsdell said.

"A proper risk relationship has to be maintained with accounts," said Mr. Greenberg of National Union. "We have stopped writing business if it can't be written at adequate rates and terms."

However, he said, National Union is retaining a higher percentage of accounts during renewals than last year.

Kemper's Mr. Like noted that underwriters, though told to get price increases in general, are not being "forced to run off good business."

Other insurers note that client retention rates have been satisfactory during recent renewals.

Arkwright's Mr. Roth said that despite requests for rate or deductible increases, few buyers are jumping ship. "We've only lost 1.6% of our business" from Jan. 1 through this April, he said.

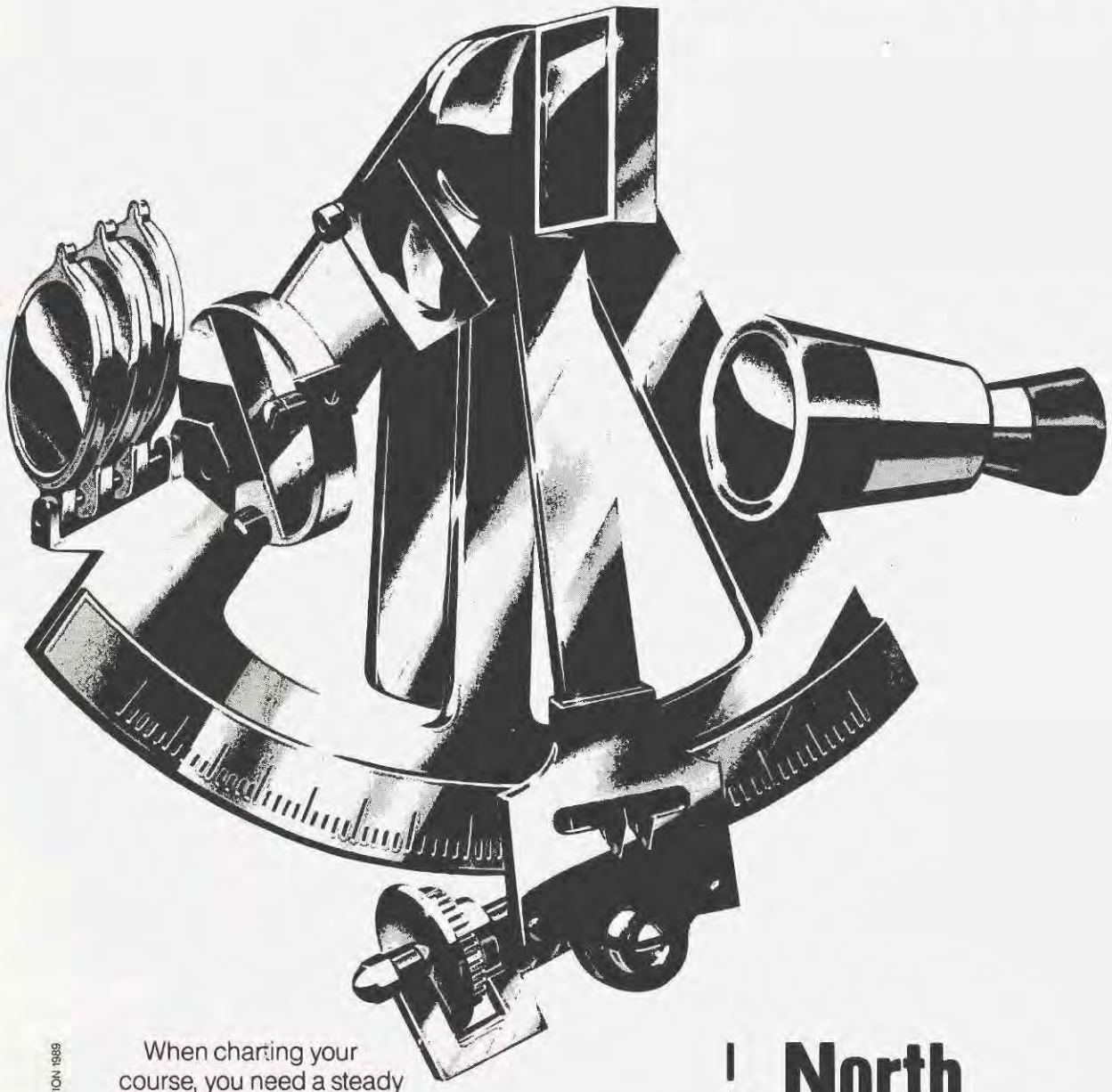
"We have not lost a lot of business" on renewals, said Mr. Vairo of Crum & Forster. "I think everyone understands today that stability and discipline is an essential element. We can't go through the seesaws and roller coasters we saw in the last cycle. It doesn't make any sense economically. It doesn't make any sense politically."

Many insurers explain that they are not increasing rates significantly despite deteriorating results because they have surplus capacity. They said capacity is shrinking only for isolated coverages.

"There are a lot of reasons why rates should be going up," said Klaus G. Dorfi, executive vp-insurance operations for Murray Hill, N.J.-based Atlantic Mutual Insurance Co. Among those he cited were catastrophes such as Hurricane Hugo, combined ratios running about 110% and increased reinsurance costs.

Continued on next page

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"But the main reason they are not going up is that the industry has tremendous capacity," Mr. Dorfi said.

Allendale's Mr. McIntyre explained there is no shortage of capital because service industries look more attractive to investors than do manufacturing industries.

The result is more capacity chasing a flat demand for insurance, which keeps prices down, he commented.

"People seem to look at the industry in isolation, and it's really not that way all," Mr. McIntyre said.

The executives of several offshore alternative risk financing mechanisms also reported adequate capacity.

"Capacity has increased in excess liability and D&O lines," said Mr. Scott of A.C.E.

In addition, "there doesn't seem to be a shortage on the property side either, from what I'm hearing," he said.

X.L.'s Mr. O'Hara said D&O capacity is about the same and excess liability capacity has increased somewhat.

In addition, some insurers note that the recent exodus of some national property/casualty insurers from personal lines will fuel competitive fires by adding to capacity and keeping rates depressed.

For example, Crum & Forster and Philadelphia-based CIGNA Corp. will stop writing all types of personal lines insurance.

Chubb's Mr. Kelsey and Continental's Mr. Ramsdell said capacity and insurers' appetite for commercial business will grow as more companies withdraw at least in part from the personal lines market.

But National Union's Mr. Greenberg said there is no more capacity for D&O or professional liability than there was a year ago.

He also said surety bond capacity is about the same as six months ago and that he is "not hearing buyers complain about getting the limits they want."

In addition, "there is a little shrinkage of capacity for financial institutions," Mr. Greenberg said.

Chubb's Mr. Kelsey said there has been some capacity constriction in the contract bond surety market because of bad experience and the fact that the contracting business has been unstable since the early 1980s.

Insurers also downplayed the impact of the dissolution of the H.S. Weavers (Underwriting) Agencies Ltd. line slip on capacity for U.S. excess liability coverage.

"I've seen no noticeable effect of the Weavers debacle. It was like pouring water on sand—there were plenty of people around to pick up the business that came looking for a home," said A.C.E.'s Mr. Scott.

But the dissolution of the Weavers slip has made "the issue of the strength of insurers much more a topic of conversation," National Union's Mr. Greenberg said.

"I think what is most important is the underlying concern buyers have been expressing over security issues," Mr. Greenberg said.

Transamerica's Mr. Wrattan disagreed that buyers had learned a lesson from Weavers.

"Right now, buyers are asking more questions, but they have short memories. When it gets down to who has the lowest prices, they forget," Mr. Wrattan said.

Other insurers say surplus capacity is not the major force behind the soft market.

"I really don't think capacity is the only reason or even a major reason," said Crum & Forster's Mr. Vairo.

He blamed the continuing market conditions on some insurers' desire to maintain market share and their lack of pricing discipline.

Transamerica's Mr. Wrattan agreed: "Lack of good management and too much competition" are the factors driving the current market, he said.

"It is irresponsible management not to charge prices that are adequate," he said.

He adds that "companies are trying to get more of the market share" by lowering rates, creating "a death spiral."

However, "companies must be growing increasingly aware" that continued deterioration of combined ratios is unacceptable, said Wausau's Mr. Santillo.

"I think that realization will lead to more adequate pricing on many lines of business by the end of 1990," Transamerica's Mr. Wrattan said.

"I think it has to turn around in the next 12 months," said Crum & Forster's Mr. Vairo.

He cited continuing deterioration in combined ratios, rates of return on equity in the 6% to 7% range, higher taxes because of the Tax Reform Act of 1986 and escalating claims costs. But, even when the market begins tightening more than it has over the past couple renewal dates, there will not be the triple-digit rate increases or the availability crunch that marked the hard market of the mid-1980s, Mr. Santillo of Wausau predicted.

"I quite frankly don't think we can risk the political fallout," he said.

Kemper's Mr. Like agreed. "We don't need the public outcry of another crisis," he observed.

He predicted that a change would be gradual. "We've said all along that there will be some movement this year," he said.

Selective's Mr. Jarvis also predicted a near-term recovery. "I think that going into next year, the market will be tighter," he said.

But Transamerica's Mr. Wrattan was not so optimistic. "We won't see a lot of change over the next six months," he said.

When the market does harden, Mr. Wrattan said, he does not expect a repeat of the mid-1980s crisis.

"You will see some companies become insolvent" over the next several years, and some insurers "become very selective" about what they offer and where they operate, he said. "There are states out there you can't make a dime in no matter what time you get up in the morning," he adds.

"I guess the earliest I would expect any real change is maybe next year, but I'm not counting on it," said Atlantic Mutual's Mr. Dorfi.

Some insurers, however, have begun to speculate that a violent contraction such as that of 1984 is not impossible.

While today the market appears to be firming, "if buyers push price down another notch, the result will be an '84-type response," said Mr. Hynes of Hartford Steam Boiler.

The severity of the market turn "depends on how long the market goes without any corrections made," X.L.'s Mr. O'Hara said.

Tighter underwriting practices and more realistic pricing could stave off another major market crisis, he said. "The longer one end of the cycle persists, the worse it will be when it turns."

Mr. Greenberg concurred. "The longer the market doesn't recognize rate needs and deficiencies, the more severe the turn will be. A lot of companies will wait until the last minute" to raise rates, and "that will be very disruptive," he said.

Continental's Ms. Ramsdell also raised the spectre of massive rate hikes.

"The profitable business is property-oriented, packaged business and everyone is competing for it and the prices keep getting lower. Companies are walking away from non-profitable business. Previously, companies were saying the market won't turn violently, but if you have a thousand companies chasing the same business" a crisis may be inevitable, he said. ■

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Analysts say hard market is still distant

By JUDY GREENWALD

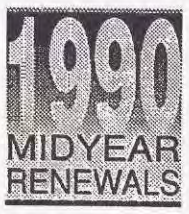
Commercial property/casualty insurance rates will not rise significantly during the remainder of the year, most insurance industry securities analysts say.

Many analysts say the commercial insurance market currently is at the trough of the cycle, lacking a clear movement toward higher or lower rates.

And an abundancy of capital and still healthy, if slowing, insurer cash flow means the market is likely to continue to bump along the bottom of the cycle for some time, analysts predict.

Only a catastrophe of dramatic proportions, or a sharp stock market decline that cuts into insurers' capital, is likely to hasten a turn in the market, they add.

"I do not see any turn in sight yet. Certainly there wasn't any indication during the first quarter that there was a turn coming," said Barbara Stewart of Stewart Economics, a consulting firm in New York.



Companies are continuing to hold onto good business, "which is code for 'cut the prices if you must,' " said Ms. Stewart. And, there have been no disasters that would create any sudden or major tightening of capacity, she adds.

The problems that led to the demise of the H.S. Weavers (Underwriting) Agencies Ltd. line slip could be an exception, she said (*BI*, April 23). However, "I think it's a little too early to call that," says Ms. Stewart, noting that her impression is that there has not been much difficulty placing that business elsewhere.

"I haven't seen any sign of anything that would indicate a general restriction of capacity in the market," she said, adding that capacity must be cut before prices will rise.

Myron M. Picoult, senior vp at Oppenheimer & Co. in New York, called the current marketplace "sheer folly and stupidity."

While there are indications the market should have turned already, it has not, "and the buck stops at managements' desk," said Mr. Picoult. "It's really illogical. Absolutely illogical."

The longer it takes for the turn, the sharper it will be, he adds. "The yogurt is getting deeper and thicker."

At Firemark Consultants Inc., "we continue to believe there's a situation of overcapacity in the industry," said W. Dolson Smith, vp with the Morristown, N.J., firm.

The U.S. property/casualty industry's net written premium-to-surplus ratio stood at relatively low 1.53-to-1 at year-end, he said, and "we don't believe that has increased significantly in the first and second quarters. It's a major reason why we continue to believe there'll be a soft market until at least 1991."

Another indicator the market is unlikely to turn soon is insurers' return on equity, said Mr. Smith. Excluding catastrophes, return on equity last year was 8% to 9%, and while it has deteriorated since, "I believe it can go a lot lower" because capacity is abundant, he said.

Normally, he said, return on equity must fall to 4% to 7% before the market will turn. But with surplus rising 13.1% last year despite record catastrophe losses, "I just think the industry is not going to turn around until we get down to a very low return on equity."

He cites another reason why the market will not turn until 1991: "The operating cash flow is still quite significant for the industry."

Rates have increased somewhat for catastrophe reinsurance, but "that's a very small percentage of total industry premium volume," Mr. Smith noted.

Only a major catastrophe or a stock market drop could cause a more immediate turn, he said. Barring those two events, the turn will be caused by "just generally low profits and cash flow."

James F. Guenther, assistant vp with rating agency Duff & Phelps in Chicago, commented, "I think we're at a fairly tentative point in the cycle. It's hard to say exactly which way the market is going to go."

On large account business, he adds, there has been a "small slippage" in commercial lines, with perhaps some deterioration in the past two months. On smaller, Main Street business accounts, some rates may be going up, but those increases may not be sufficient to cover insurers' higher loss costs and expenses.

And, he noted, cash flow has decelerated sharply, but it is still "rather significant on an aggregate basis."

From this point, said Mr. Guenther, the market will "either slip back down to further softening or remain fairly stable."

Mr. Guenther said he believes it will be at least late next year before the market turns, and it could be take even longer if insurers' capital and surplus levels remain strong.

"I'd say things are not getting better and things are not getting worse. We're kind of 'plateauing' at the moment," commented Sean F. Mooney, senior vp and economist at the Insurance Information Institute in New York.

Some first-quarter signs, including premium growth of more than 5%, tended to indicate that "a bit of a turn is on the way," he said.

On the other hand, that premium growth was not strong enough to offset increased claims, and Mr. Mooney predicted that there will not be a "real turn" until 1991.

"Some insurers may be seeing some (rate) increases, but overall, the trend still has been flat," said Marvin Shulman, a senior analyst with Moody's Investors Service Inc. in New York.

Since the 1989 catastrophes failed to harden the market, "it is difficult to see what will make it turn around," he said.

Unlike the last soft market, when a sharp turnaround followed a steep decline in rates, "the trough here has kind of a flat bottom," he observed.

Mr. Shulman added, however, that the market could turn next year. "It depends how uncomfortable insurers are, and what competitive pressures they're seeing to maintain prior rates at current levels."

He likens current competition to a group of automobiles following one another around in a circle. You have to get them all to move at the same time, he said.

Unlike other industries, he noted, the property/casualty industry does not have a barometric company that other companies follow on prices.

"In this case, there doesn't seem to be anybody willing to take a leadership position," he said.

"We're not hearing any real consensus" on what is happening in the market, said Ira Malis, an analyst with Baltimore-based Alex. Brown & Sons.

Underwriters currently are talking about increasing rates 4% to 5%, but that is not enough to offset loss costs, he said.

Mr. Malis added, however, that he believes the cycle has now hit bottom. "There are so many factors in

Continued on next page

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there that are setting the table for a recovery," including relatively low investment income and declining cash flow, he said.

Nevertheless, he added, "It sounds like we're going to bounce at the bottom for a while."

"I think things are pretty sideways-moving," agreed G. Alan Zimmermann, a vp with Smith Barney, Harris, Upham & Co. Inc. in New York. "I don't see them going up a lot and I don't see them going down a lot."

Profit margins are being squeezed somewhat, though "there's no panic on the part of management," Mr. Zimmermann says, adding that he is not sure about what will cause the market to turn or when it will turn.

"Nothing is changed," says David Wells, a vp with Fitch Investors Service in New York. "I'm not too optimistic, particularly with the stock market doing fairly well in the second quarter."

Despite a lot of talk about the property/casualty insurance industry's surplus declining by $1.7 billion —or 1.3%—in the first quarter, the industry's performance improved in the second quarter, leading companies to feel "fairly flush with capacity," said Mr. Wells.

"I don't see anything happening this year at all unless we get some extreme event," said Mr. Wells, who added the market has a propensity for waiting for something of that magnitude to happen before changing its course.

"Things seem to be flat to slightly better, but not terribly dynamic or terribly robust," said Richard Paulsen, an analyst who heads Paulsen Securities Inc. in Boston.

Noting abundant capacity, Mr. Paulsen added, "I think until the surplus issue is addressed in some manner that they'll continue to write business to use that surplus."

If the stock market were to drop 10%, it would knock out insurers' capital gains, Mr. Paulsen noted. "It would take care of the surplus problem very quickly."

David Anthony, an analyst with Fox-Pitt, Kelton in New York, described the market as highly competitive and not significantly different from a quarter ago.

He said the market could change after the first quarter of 1991, after insurers have examined 1990 statutory results.

"By that time, operating cash flows may have declined sufficiently to cause some level of concern," said Mr. Anthony.

However, Michael Smith, a Shearson Lehman Hutton Co. analyst in New York, said that property/casualty rates will begin to increase after the July renewals.

Mr. Smith, a specialist in broker and reinsurance stocks, said talks with brokers do not "suggest anything encouraging" coming in July renewals. Prices are relatively stable on a year-to-year basis, "but they are certainly not going up, and the current level of pricing is not adequate by any means, so it's just not a very attractive picture."

Some reinsurance rates have gone up, but only on a highly selective basis, said Mr. Smith. Only catastrophe rates have gone up consistently, he adds.

He also noted there have been rate hikes on facultative business for highly technical industries like petrochemicals and pharmaceuticals.

However, Mr. Smith said, "I think we're going to see price strengthening in the second half of 1990. I think the July renewals will be the nadir" of the market. He adds that he thinks a turn will feature gradually rising prices rather than "a quick and sudden sharp rebound."

Several factors, he says, will contribute to the increases. First-quarter insurer results, he said, indicated that premiums rose 5.5%, but claims increased 7.5%, "so there's an implication here for cash flow."

He also noted the decrease in industry surplus in the first quarter.

In addition, he said, investment income increased only 7.5%, which leads to the "relatively quick conclusion" that investable assets—like cash—were used last year to pay claims. As a result, the quality of surplus is not as strong as it was a year ago, said Mr. Smith.

"These difficulties are going to accumulate, and we could get to the point very rapidly" where insurers must either raise prices or go out of business, Mr. Smith said.

Charles Ronson, an analyst with Baird, Patrick & Co. in New York, also said he believes rates will start increasing the second half of this year.

Mr. Ronson maintains the industry has negative cash flow—after dividends and necessary reserve increases are taken into account. "When it is negative, the situation is very similar to that of a forest that is very dry," said Mr. Ronson. Historically, the financial equivalent of a forest fire takes place "within a relatively short period of time," he adds. ■

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Retrocessional market feels squeeze

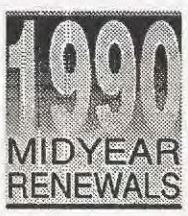
By DOUGLAS McLEOD

NEW YORK—Property/casualty reinsurance buyers are having a surprisingly easy time with midyear renewals, though retrocessional coverages remain the exception to the rule, reinsurers and brokers say.

Racked by a succession of unprecedented property catastrophe losses, retrocessional markets have tightened dramatically, with capacity sharply reduced and prices sharply rising, brokers report.

However, the impact of this change has not yet been felt in the catastrophe reinsurance market. Catastrophe coverage has become more expensive for ceding insurers hit with big losses, but those that escaped major losses are seeing only a modest tightening, brokers say.

"There is very little change since Jan. 1, with the major exception being retrocessional covers," observed Willis T. King Jr., chairman of Willcox Inc., the New York-based reinsurance brokerage unit of Johnson & Higgins.



"I don't think there are a lot of smiling faces out there in the reinsurance marketplace," he added.

"Overall, I would have to say nothing dramatic is happening other than (tightening in) the retrocessional market," agreed Michael W. Cashman Sr., president of E.W. Blanch Co. in Minneapolis.

"It just seems to continue on the plateau it's been on for the past nine months or so," said Steven H. Newman, chairman of Underwriters Reinsurance Co. in Woodland Hills, Calif.

While expressing optimism about the long-term prospects for a turn in the market, Mr. Newman added that "we are not feeling particularly enthused right now about underwriting conditions."

"Things are still pretty soft," concurred one broker who asked not to be identified. "We have yet to feel the impact of the changing retrocessional market in London."

Many observers expected the string of catastrophes over the last year—including Hurricane Hugo and winter storms in Europe and the United States—to produce widespread tightening in the property reinsurance market. But the only dramatic change so far has been in the retrocessional market.

A number of London reinsurers writing retrocessional programs have either withdrawn from that market completely or cut back the amount of such business they write, brokers report.

"Prices are up fairly dramatically," Mr. Cashman said. "There's a definite capacity crunch, too."

Rate increases on retrocessional renewals average 50% to 75%, Mr. Cashman said. Meanwhile, overall capacity for retrocessional programs has dropped by roughly one-third, with upper layers hardest to place, he said.

Outlook for the next round of renewals in January 1991 is "somewhat gloomy," he said.

Retrocessional capacity is down by about one-third and "by year-end it might be (down by) as much as a half," says Mr. Newman.

The market could firm even more toward the end of the year, when battered retrocessionaires try to renew their own retrocessional programs in the tightening market, pointed out Michael E. Rothpletz, executive vp with G.L. Hodson & Son Inc., the New Hyde Park, N.Y.-based reinsurance brokerage unit of Corroon & Black Corp.

Capacity may become scarcer as additional catastrophe losses work their way through the reinsurance and retrocessional markets, added Willcox's Mr. King.

While Hurricane Hugo losses were adjusted and paid fairly quickly, losses from Europe's first major windstorm of 1990—dubbed 90A in the London market—are just now being felt by reinsurers and have yet to hit retrocessionaires.

Subsequent disastrous winter storm losses in Europe and mounting weather-related losses in the United States can only make matters worse, he suggested.

"If things continue as tight as they are," this fall "will be a very tight hurricane season," Mr. King commented.

While the crunch in the retrocessional market may eventually contribute to tightening in the catastrophe reinsurance market—particularly if big U.S. storm losses continue—it hasn't happened on a widespread basis yet, brokers say.

This is largely because an overcapitalized reinsurance market retains plenty of capacity despite the loss of retrocessional support, Mr. King pointed out.

"The retrocessional market has decoupled itself from the rest of the market," Mr. King said. "It's an interesting anomaly in the marketplace."

Catastrophe reinsurance renewals for ceding insurers hit by Hugo and other storms are getting tougher, with reinsurers successfully demanding higher rates on both lower and upper layers, brokers say.

Even upper catastrophe reinsurance layers that were not hit by storm losses are costing some ceding insurers more, reported Ronald J. Taylor, G.L. Hodson's president.

Reinsurers participating on both lower and upper layers of a catastrophe program are using their continued participation as a bargaining tool for getting rate increases in both layers, he said.

Reinsurers are telling ceding companies, "By the way, if you aren't willing to pay me on the upper layer, I'm probably not going to support you on the lower layer where you need me," he observed. "They are kind of in the driver's seat."

James Sandner, president of Chicago-based Brokers Risk Placement Service Inc., agreed that "it's the upper layer that is driving the increases in the lower layer."

With capacity growing somewhat scarcer for upper layers, reinsurers are using this to extract rate increases for lower layer participations, where capacity is more plentiful, he explained.

Mr. Sandner predicted that the upper layer capacity squeeze will spread to the lower layers by January, prompting widespread rate increases on catastrophe reinsurance renewals.

"That's going to trickle down, in my opinion, but it's going to take the whole year for the reinsurers to sort out where they are," Mr. Sandner said. "I can't believe we are not going to see increases of 15% in the property (catastrophe) area, and maybe as much as 30%" by next Jan. 1.

Currently, though, rate increases

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in catastrophe programs have been spotty and largely confined to ceding insurers with heavy 1989 storm losses.

Catastrophe rates are "only selectively firming up," said one broker who asked not to be identified.

" 'Firming up' in today's vernacular only means the prices aren't going down any more," adds the broker.

Rates are up for companies with large losses, while companies that escaped the losses are seeing only a "slight upward trend" in pricing, observed Mr. Cashman.

However, "the pricing is certainly not going through the roof," he added. "There's a surplus of capacity still."

Mr. Rothpletz of Hodson agreed that there is still ample capacity to complete most programs, even after some ceding insurers looking for better security in reinsurance have "weeded out" certain reinsurers.

"It's not a piece of cake, but it's getting done," he said.

If overcapacity is still a feature of the catastrophe reinsurance market, it is even more pronounced in the property per risk and casualty treaty markets, brokers and reinsurers report.

The property per risk treaty market remains highly competitive, and brokers say they see no signs of tightening on casualty treaty business.

"The property per risk side is still very soft," Mr. Rothpletz said, noting he sees no signs of a change in the market. Property per risk reinsurance is a form of non-proportional excess reinsurance in which the reinsurance limit and retention apply per risk rather than per occurrence.

"It's a bit surprising how good the terms were for the reinsureds" in recent renewals, Mr. Rothpletz said.

Many property reinsurers have developed large net lines for per risk treaty business, Mr. Taylor added, so "you don't have the effect from the retrocessional market that you might have on the property catastrophe side."

The property treaty market is "still definitely soft and there's plenty of capacity," Mr. Cashman adds.

"There's a lot of market out there that wants to be fed," said one broker of both the property and casualty treaty markets. "Nobody is just rejecting things out of hand."

Ceding insurers are generally not taking advantage of the soft market to reduce their retentions—as they have in previous soft markets—but instead are buying more upper layer protection, the broker added.

"It's business as usual," the broker said. "There are no wild rate reductions, nor are we seeing any wild rate increases."

Meanwhile, despite the problems at H.S. Weavers (Underwriting) Agencies Ltd. of London, the casualty treaty market still shows no signs of tightening.

Many reinsurers are writing lines or classes of casualty business that they have not written in the past, noted Mr. Taylor.

For example, a reinsurer that has never before written tough casualty risks on a quota-share basis may now be willing to do so, he said.

Reinsurers are also expanding into such lines as umbrella liability, trucking liability, professional liability, risk retention group reinsurance and finite risk reinsurance, he said.

In some cases, the reinsurer is following its ceding insurer client's expansion into these lines.

"There's not a lot of business changing hands," Mr. Taylor said of the casualty reinsurance market. "A lot of the placements are new placements rather than renewals."

This activity, Mr. Taylor said, is fueled in part by reinsurers' desire to maintain revenue growth in a market downcycle.

"If you are in a business where your performance is based on revenues, nobody likes to see them go down," he observed. "You have to write a lot of new business just to stand still."

As in other recent renewal periods, competition in the casualty market more often takes the form of improved terms and conditions rather than rate reductions, brokers report.

"More people are willing to look at casualty business and more people are willing to compromise on overall terms," said Mr. Cashman, adding that pricing is modestly softer for many standard casualty risks but that reinsurers more frequently offer other types of concessions in terms for other tougher risks.

Catastrophe rates are 'only selectively firming up,' says one broker. However, the broker adds pointedly that ' "firming up" in today's vernacular only means the prices aren't going down any more.'

Concessions offered on tough risks may include extension or elimination of sunset clauses—which phase out coverage over a defined period—and aggregate caps, which cap reinsurance recoveries after losses reach a specified level.

Some price competition still exists, though.

One reinsurance company executive who asked not to be identified said a competitor recently offered a client a swing-rated casualty program—in which the rate can be adjusted up or down within a defined boundary depending on the experience of the program—that could have provided a 25% reduction of the maximum rate under the client's expiring program.

Noting reinsurers' generally poor first-quarter operating results, the executive wondered how long the competition can continue.

Reinsurance company owners "are not going to sit still and see everything fall," he predicted. "They will say, 'A, we lost money, and B, we lost surplus. Let's do something about it.' ■





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SAFETY SHORTS

Brokers' views

Continued from page 1

for a couple of months," said Charles L. Ruoff, senior vp of Sedgwick James North America in New York, the U.S. retail arm of Sedgwick Group P.L.C.

"In the first part of the year, price declines were moderate to flat, but in April, we saw price reductions pick up again," Mr. Ruoff explained.

'We're seeing absolutely no tightening of the market and very aggressive postures on virtually every class of business," noted Bernard Mizel, president and chairman of San Francisco-based American Business Insurance Inc.

"In many cases, depending upon the type of client and the type of account, rates are 10% to 20% lower than last year," Mr. Mizel added.

But, "overall it's real uncertain, uneven," said Frank Robitaille, president of Orange, Calif.-based Armstrong/Robitaille. He cited two cases where accounts that he described as hazardous risks were granted significant rate reductions, when other higher-risk accounts were renewed at the expiring rate. "There's no consistency," he said.

Although many insurers initially have sought rate increases on renewals, brokers say insurers will often renegotiate if they risk losing those accounts to competitors offering lower rates.

"Nobody wants to lose any accounts so if the holding underwriter gets a second look, he'll make sure he keeps the business," said James Goulard, president of Frank B. Hall & Co. Inc.'s Corporate Risk Division in New York.

"Incumbent (insurers) are at a disadvantage," said Daniel Batonick, vp of Johnson & Higgins in New York. While they may want to firm up rates, "when another insurer offers a lower rate, more often than not they will drop their rate down" to retain the account, he added.

"Nothing is cast in stone in this marketplace," agreed J&H Senior Vp Robert A. Kerekes.

"Insurers are telling us they want more money. . .(and) they start off well-intentioned, but they don't want to lose their renewals," stressed Elliott M. Jones, vp and marketing manager of Alexander & Alexander Inc. of Chicago, a retail brokerage office of New York-based Alexander & Alexander Services Inc.

While many insurers have said publicly that they are holding the line on rates, brokers say many are not sticking to these "walk-away prices."

"They are establishing walk-away prices on individual accounts, but not on their books of business," said Sedgwick James' Mr. Ruoff. And, he added that "walk-aways were more prevalent in the first quarter than they are now."

Insurers "are more vocal on the prospect of a walk-away price and from time to time you'll see them practice their stated intent, but it's certainly not universal," agreed Larry Sorensen, senior vp and director of marketing for Rollins Burdick Hunter Co. in Chicago.

"Where underwriting is centra-

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Business Insurance

Agent/Broker Topics

A monthly editorial section sent exclusively to agents and brokers

New cost control targets

Hiring caps give way to closer scrutiny of expenses

By LAURA MAZZUCA

With no apparent end to the soft commercial property/casualty insurance market in sight, agents and brokers are continuing to wield their cost-cutting sword.

However, many brokers—wary of cutting into muscle by trimming payroll fat—are shifting their cost control efforts away from employee-related expenses, which account for 65% to 70% of a brokerage's total costs.

Instead of implementing hiring freezes and sharply limiting pay increases, brokers often are focusing cost control efforts on non-personnel items, like automation improvements, tightening up on debt collection and cutting down on needless expenses.

In fact, some brokerages are even re-examining "uncontrollable" overhead like rent by renegotiating leases or buying their own space.

Further cuts in personnel would be a risky business practice, some brokerage executives point out.

"There are two ways to set financial goals: produce new business or control expenses. But if you're too lean, you're not poised to take advantage of market changes," said Frank Wieczynski, a senior vp with Alexander & Alexander Services Inc. in Owings Mills, Md.

A&A, the nation's and the world's second-largest broker based on $1.25 billion in 1989 revenues, reduced its employee base by about 2% through attrition last year. Now, A&A plans to hire new workers, Mr. Wieczynski said.

"You can't cut back too much on people expenses, or you'll hurt your client service levels," agreed Mitchell Blaser, a managing director at Marsh & McLennan Cos. Inc. in New York.

M&M, the world's largest brokerage with $2.46 billion in 1989 revenues, gradually scaled back expenses when the market softened. Its total number of employees increased only 3.9% from 1987 through 1989, compared with an average of 12% employee growth in each of the three preceding years.

Now M&M is running efficiently enough to cope with today's and tomorrow's market conditions, he says.

"We did a good job of disciplining ourselves this time," Mr. Blaser said. "If the market turned tomorrow, we wouldn't have to" hire frantically to keep up with competitors. "Coming into a hard cycle, we don't want to put ourselves into a spending frenzy," he said.

But experts agree that employee-related expenses are the traditional—and possibly most effective—target of cost-conscious brokers.

"It really doesn't matter how much you spend on postage. That doesn't make or break you—but payroll can," said William B. Conner, president of Robinson-Conner Inc. of Erie, Pa., the nation's 18th-largest brokerage.

With other costs like rent and utilities subject to the vagaries of inflation, "there's not an awful lot in the expense category that you can tighten the bolts on," added Michael J. Cloherty, vp-finance for Arthur J. Gallagher & Co. Inc. of Rolling Meadows, Ill.

Most brokerages began to clamp down on employee-related expenses several years ago when property/casualty rates and commissions started to go south (*BI*, June 20, 1988).

Some brokerages actively laid off employees and others reduced their workforce through attrition. Some tried both.

For example, Robinson-Conner eliminated 21 administration and support staffers through layoffs and attrition last year.

Despite the smaller workforce, Robinson-Conner still reported a modest revenue gain: 3.3% to $30.8 million in 1989, from $29.8 million the previous year. And, the brokerage's per-employee revenues increased 7% to more than $64,517 from $60,152.

"We wanted to start this year off fresh and doing things right," said Mr. Conner. The brokerage also has reduced its number of offices to 16 from 19 at year-end 1988.

"We've taken a very hard look at every office and insisting on their working in a more efficient manner," he said. "Now that our offices are streamlined the way they ought to be, it makes it more attractive for us to do some acquisitions."

However, some brokers say they have increased productivity through other means, rather than cutting employees or salaries.

"We've been operating at relatively high efficiency for the last three years," said Richard S. Price, president of Mesirow Insurance Services Inc. in Chicago, the nation's 66th-largest brokerage based on 1989 gross revenues of $9.4 million.

Mesirow in 1986 re-examined its internal operations, which led to a reorganization of its marketing department to install a team management approach and to increase its reliance on automation to improve productivity.

However, salaries have never been cut or frozen for Mesirow's 93 employees, said Mr. Price, who calls such tactics "100% the wrong approach" to cost containment. "The only way to attract and retain people is salary," he said.

Mesirow's revenue per employee grew 3.5% from 1987 to 1989.

By operating more efficiently, the brokerage is able to offer more services to its clients, Mr. Price said. For example, Mesirow launched an aviation division last year, he said.

At many other brokerages, the freeze on big salary increases once used to hold down expenses is now being thawed.

"You can only ask your people to go with the market for just so long," said Gallagher's Mr. Cloherty. Gallagher increased salaries an average of 6% in 1989 after three straight years of 4% average pay increases.

Still other companies say they are concentrating more on boosting revenues than on controlling expenses to increase profits, despite the soft market.

"Basically, we're just trying to sell more," said Robert E. Crum, secretary of LaGere & Walkingstick Insurance Agency Inc. in Chandler, Okla., the nation's 44th-largest brokerage.

Gross revenues were down slightly to $13.8 million in 1989 from $14 million a year earlier, even though the brokerage is selling more: Premium volume produced by the firm's retail brokerage division rose nearly 9% between 1988 and 1989, and in the first five months of 1990 retail premium volume was $7 million ahead of the 1989 pace, Mr. Crum said.

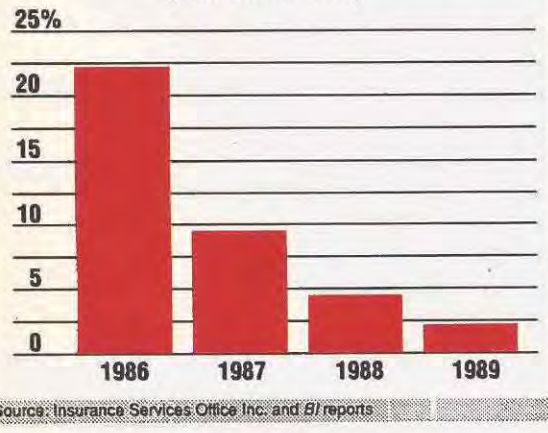
Increasing brokerage revenues often reflect acquisitions, development of niche marketing programs or strong performances from separate operating units like employee

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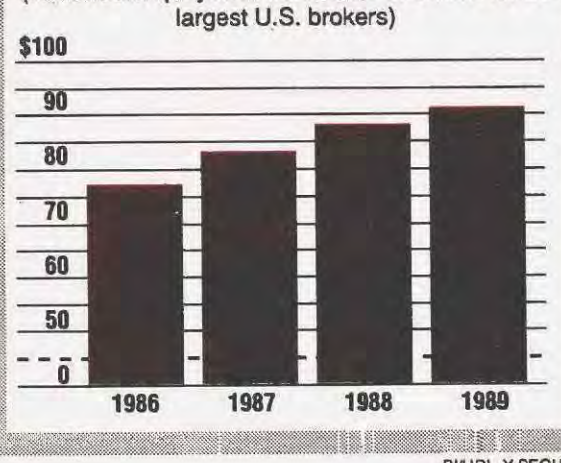


Soft market spurs efficiency

As the soft market drags on . . .
(Percent change in net property/casualty premiums written)



. . . brokers are forced to increase efficiency
(Revenue/employee in thousands of dollars for 20 largest U.S. brokers)



Source: Insurance Services Office Inc. and *BI* reports

BI/HOLLY SEGUINE

Cost control

Continued from previous page

benefits consulting and third-party claims administration.

Acquisitions add additional employees to a brokerage's roster, while expanding new lines of business requires additional personnel.

"We have no plans for cutting back employees. We're still experiencing absolute growth," said Jerry Esselstein, chief operating officer and treasurer of Berwanger Overmyer Associates, a Columbus, Ohio, brokerage.

BOA—the nation's 80th-largest broker based on 1989 gross revenues of $7.8 million—needs to attract and keep good employees, especially in its growing financial services, pension administration and other divisions, he said, noting that its staff grew to 99 workers in 1989 from 92 in 1988.

Commercial property/casualty insurance, which accounts for 59% of BOA business, remains the driving force for the brokerage, but employee benefits and claims administration programs have grown significantly in recent years, said Mr. Esselstein. Employee benefits alone made up 18% of 1989 revenues, more than double 1987 figure, he said.

The brokerage tries to attract quality employees with competitive salaries and benefits, he said. Annual raises range from 2% to 10%, depending on individual performance, with an average raise of 4.5% this year, he estimates.

Cutting salaries and benefits could well hurt client services, agreed Mr. Blaser of M&M, which increased its employee total 3.5% in 1989 as part of its long-term plans to expand in Europe and elsewhere. "You can only keep your expense control down for so long before you cut into your revenues and service."

So brokerages have turned their attention to other areas, including one long considered an "uncontrollable" portion of overhead: rent.

M&M recently consolidated its New York operations into a new, $250 million, 44-story midtown office building, in which it owns a 56% condominium interest. Short-term expenses are projected to be high. But in the long run the brokerage will save money because it uses its 800,000 square feet carefully and because it will not have to renegotiate contracts at higher prices, said Mr. Blaser.

Berwanger Overmyer Associates built its own 31,000-square-foot facility in 1986. Advantages for employees include a central location and exercise facilities. And Mr. Esselstein, BOA's chief operating officer and treasurer, said he expects occupancy costs as a percentage of revenue to decline over the years.

Another way brokers fight rising expenses is improved automation.

Mesirow, for example, purchased and added to its Insurnet computer system, allowing it to computerize all its files over the past three years, said Mr. Price.

Mesirow has spent between $500,000 and $600,000 in three years upgrading the system. It now

Continued on next page

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Agent/Broker Topics

Continued from previous page
has 120 terminals—up from an original 50—and is used for basic accounting and customer information and prospecting, he said.

These capabilities will allow Mesirow producers to increase the company's revenues by more than $1 million this year, he said.

Significant investments in computer systems over the past five years at M&M have increased efficiency, though not necessarily by cutting employees, said Mr. Blaser.

High-tech efficiency, though, comes at a price.

Sometimes a brokerage needs as many or more people to run the computer system as it did before it was installed, said Mr. Conner. "Then it's the worst of both worlds."

Despite Robinson-Conner's automation efforts, many offices were duplicating work by relying excessively on manual backup systems, he explained.

The brokerage decided to battle this computer inefficiency in July 1988, "when it became clear to us that the market was not going to turn at the first of the year," said Mr. Conner.

Trained in-house personnel now are sent to all of the brokerage's offices to determine whether computer systems are being used to their full capacity, he said. And to improve utilization of its systems, Robinson-Conner used several of its most advanced branch offices as role models for the others.

Other brokers also use productive branches to inspire improvements in lagging offices.

Acquiring most of the business of rival broker Bayly, Martin & Fay International Inc. last year gave Rollins Burdick Hunter Co. the impetus to look more closely at each RBH office's performance, said Arthur F. Quern, chairman and president of the retail brokerage.

"We've made most of the head count reductions that we're going to make" to eliminate redundant operations, he said. "Now we have to manage with an eye to making sure that service is there."

One part of its strategy: Determine which branch offices are the most productive, then "go in and find out what they're doing to see if it's transportable," he said.

In addition to other expense control methods, most brokers say they closely watch tried-and-true areas like producer expenses and accounts receivable.

For example, M&M is closely monitoring staff travel and entertainment costs and has also cut back on use of outside consultants, said Mr. Blaser.

And Mack & Parker Inc. in Chicago, the 70th-largest U.S. broker with 1989 gross revenues of $8.4 million, began trying to shore up its accounts receivable and bad debt collection in 1988, said Martin P. Hughes, executive vp.

Under the new system, if a producer does not collect an outstanding balance within 30 days of the due date, his compensation on that account is cut; after 90 days, it is eliminated, said Mr. Hughes. "It's amazing that everybody had their accounts in on time after that!" he quipped.

He estimates that the new program has brought in about $50,000 from previously uncollected accounts so far.

Mack & Parker, like many other brokers, says it is keenly aware of producer expenses.

Automobile expenses formerly were reimbursed by number of miles traveled, but Mack & Parker producers now receive only a flat automobile allowance. And reimbursements for club initiation and membership fees, once paid in full, are now covered at 50%.

"Many producers weren't using these memberships as they should," said Mr. Hughes.

Robinson-Conner requires more documentation from its producers on their expense sheets, said Mr. Conner. The brokerage formerly gave producers a flat monthly expense fee based on the amount of business they wrote. But some producers were simply pocketing this, so itemized expense sheets were introduced. This resulted in "a modest reduction" to their ex-

Continued on next page

Errors & omissions

• Coverage for organ procedures comprises 20% of a Clair Odell Group executive's personal book for business, not 25% of the brokerage's total business as reported in the June 4 issue of Agent/Broker Topics.

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Agent/Broker Topics

Agents participate in media relations program

NEW YORK—Agents in five states are being trained to be industry advocates under a trial media relations program sponsored by the Insurance Information Institute and the Independent Insurance Agents of America.

About 60 agents in Georgia, Kansas, Oregon, Montana and Maine are involved in the "Key Contact" program.

Those selected as "key contacts" are monitoring local newspapers and television stations for insurance-related stories and editorials and are helping reporters get a quick response if needed, said Peter van Aartrijk, co-chairman of the project and director of press relations for the III.

Agents unable to answer questions can refer reporters to additional news sources like industry associations.

The III hopes to expand the program to another 10 states by next year.

A/BT briefs

Rookie honored

WASHINGTON—Brian W. Long of Sewickley, Pa., was named the first winner of the Certified Professional Insurance Agents Society's Rookie of the Year Award.

Mr. Long, personal lines manager for Seubert and Associates in Pittsburgh, created a telemarketing operation that expanded his agency's personal lines division to $2.5 million in annual premiums from $400,000, according to the agents group.

To make nominations for the 1991 award, contact the CPIA at 400 N. Washington St., Alexandria, Va. 22314; phone 703-836-9340.

New manager award

MALVERN, Pa.—A new award will honor field office managers for leadership in insurance education.

The award is named in honor of Thomas S. Carpenter, an Aetna Life & Casualty Co. executive, and is sponsored by the American Institute for Property and Liability Underwriters and the Insurance Institute of America.

A committee appointed by the two sponsors and representing various segments of the property/casualty insurance business is now accepting nominations. The first award, including a $500 honorarium, is to be presented in 1991 to the field office manager who best exemplifies leadership in insurance education.

Nomination forms are available from the Institutes' Field Services Dept., 720 Providence Road, Malvern, Pa. 19355-0770; phone 215-644-2100, ext. 7522.

Surety group officers

BETHESDA, Md.—Robert J. Hanna, secretary/treasurer of Granger-Hanna Insurance Associates of Anaheim, Calif., was recently elected president of the National Assn. of Surety Bond Producers at the group's annual meeting.

Charles H. Fleck, senior vp of The Talbert Corp. in Denver, was elected the organization's first vp, while James M. Maloney, managing director of Marsh & McLennan Inc. in Columbia, S.C., was chosen second vp.

John D. Hoffman, president of Warren-Hoffman & Associates Inc. of Niagara Falls, N.Y., was named third vp. ■

Cost control

Continued from previous page

penses, he noted.

Some brokers, though, keep this sort of perk for producers, believing it is simply part of the cost of doing business.

"We haven't taken any drastic measures. We just try to remain prudent during the whole market," said Bruce Dunbar, president and chief executive officer of McGriff, Seibels & Williams Inc. in Birmingham, Ala., the 20th-largest U.S. broker with 1989 revenues of $28.4 million.

The brokerage, which had eight offices and 321 employees at year-end 1989, plans to increase hiring in anticipation of a market turn in 12 to 18 months, said Mr. Dunbar.

One area ripe for cuts is advertising, he says. "We won't spend another cent until the market turns."

Only through careful budgeting, say brokerage executives, can a firm track the success of its cost containment efforts.

"Any cost containment program begins and ends with the budgeting process," said A&A's Mr. Wieczynski.

In the past three years, A&A has granted office managers more authority to adjust salaries on their own—rather than relying on headquarters—to enable the branches to meet budgeted goals, said Mr. Wieczynski.

Besides annual budgets, M&M and other brokerages use monthly monitoring budgets to track performance at all levels, said Mr. Blaser.

And although brokerage executives see little chance of a market hardening in the short term, most agreed that careful planning and generally stable economic conditions will keep brokers' heads above water despite the prolonged soft market.

"This market, while it is tough, is nowhere near what it was in the early '80s" when inflation and business failures were at far higher levels, said Mack & Parker's Mr. Hughes.

Financially stable clients mean that brokers will continue to attract business—and be paid for their services, brokerage executives point out.

And brokers say they won't get fooled again by overspending in the hard market, then having to scale back when things go soft, as in 1983 and 1984.

"Even if the market changes, we shouldn't operate any less efficiently than we do now," said Mr. Conner, whose goal for Robinson-Conner is for all of its 16 offices to produce at least $4 million in annual revenues and commissions.

"You'll get a bigger bang from that than from getting an office or two to go from $4 million to $6 million," he said. ■



Agent/Broker Topics

Pitfalls, 'vast' opportunities seen for 1990

By LAURA MAZZUCA

SEA ISLAND, Ga.—Numerous challenges at home and abroad, paired with continued rate cutting in the commercial property/casualty market, could make 1990 "one of the most difficult years" on record for brokers, warns a top brokerage executive.

At the 56th annual meeting of the National Assn. of Insurance Brokers, at Sea Island, Ga., last month, Richard A. Maxwell, senior vp of Corroon & Black Corp. in New York, painted a picture of an industry beset with both problems and opportunities.

The gradual opening of Eastern European markets and the 1992 removal of trade barriers within the European Community will offer "vast opportunities," he said.

Brokers can benefit from expanding markets by developing a network of associates in which "one company and one broker will be able to serve internationally operating clients," he says.

And clients doing business in Europe will benefit from more competitive pricing, increased coverage and access to more insurance companies, adds Mr. Maxwell.

But he warns that most U.S. insurers "are not moving rapidly enough" to take advantage of this booming market.

As a result, some believe that "volatility and poor returns" will characterize the initial adjustment period, he said. "Those who cannot or will not change will pave the way for those of us who can and will."

On the domestic front, U.S. property/casualty insurers face different challenges, according to Mr. Maxwell.

For example, the House Oversight and Investigations Subcommittee, chaired by Rep. John D. Dingell, D-Mich., continues to dangle the threat of federal regulation, he charges (*BI*, Feb. 26).

In its initial report, the panel takes aim at industry problems like "rampant expansion, overreliance on managing general agents, expensive and complex reinsurance arrangements, excessive underpricing, reserve problems, false reports, reckless management, gross incompetence and greed," he said. But that, contends Mr. Maxwell, represents "only the opening volley" of a congressional campaign against insurers.

Mr. Maxwell's remarks came before a House committee approved a bill that would eliminate insurers' key exemptions from federal antitrust law (*BI*, June 25).

In its report, the Dingell panel points to weak and ineffectual state regulation as the root of all industry problems, he says.

"There is no question that policyholders must be protected," but the report is inconclusive on whether the federal government would best improve the quality of regulation, Mr. Maxwell says.

"Look what federal regulation did, for example, to the savings and loan industry," he said.

Mr. Maxwell noted the NAIB has recommended several alternative methods to improve state regulation and oversight, including uniform minimum solvency standards, more frequent field examinations of insurance companies and uniform guaranty fund rules.

NAIB representatives testified before the House panel in March (*BI*, March 26).

State regulators "must be provided with tools—primarily people and, of course, money—to finance a strong enforcement mechanism," Mr. Maxwell said.

"The insurance industry can and will rise to the challenge of policing its own markets, along with the regulation by the states," he said.

Low rates of return also continue to plague property/casualty insurers, Mr. Maxwell observed.

Premium growth was at its lowest point ever in 1989 and 1990 "is not shaping up to be much better," he said. U.S. insurers' written premium volume increased only 2.1% last year, according to the Insurance Services Office Inc.

"We have maintained that 1990 will be one of the most difficult years in our long history," he predicted. "Logic says that rates should be increasing, but they are not."

And despite the perception that the industry has reached the bottom of a soft market cycle, it is impossible to determine how long the current doldrums will last, he said.

"Those who speculate that pricing will turn, with no reason for this speculation, do the industry and the shareholders a disservice," he added.

Regarding specific lines of business, workers compensation insurance continues to be a problem line, Mr. Maxwell said. That is because workers comp continues to be the "last bastion" of health care providers who do not want to be accountable for their rates, he said.

Providers continue to charge "whatever the market will bear" for workers comp-related treatment, he added.

Utilization review and case management—already common in group health care plans—are necessary to control workers compensation health care costs, he said.

Mr. Maxwell concluded by telling brokers to forge new links with their clients to survive the tumultuous times ahead.

"It behooves all of us to become intimately acquainted with our clients' business," said Mr. Maxwell. "The race is not only to the swift, but to the creative and the innovative."

The key to brokers' success in 1990 and beyond lies with the establishment of a stable relationship among insurers, clients and brokers, especially when the market turns hard again, he said.

"The concept of value-added is what will propel us through the next hard market," said Mr. Maxwell. "If the consumer can be convinced by our actions that they have seen real value added to the increased price, we will have won half the battle."

Mr. Maxwell delivered the NAIB keynote address in place of Corroon & Black Chairman and Chief Executive Officer Richard M. Miller, who was in London completing the merger between C&B and Willis Faber P.L.C. (*BI*, June 11). ■



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Agent/Broker Topics

Brokers must become involved in industry issues: NAIB leader

By LAURA MAZZUCA

SEA ISLAND, Ga.—Insurance brokers must remain on the cutting edge of insurance industry issues to have an impact on the marketplace, says the newly elected president of the National Association of Insurance Brokers.

"In a world of change and uncertainty, of intense and competing activity, of concerns over critical issues, of public and government interest in our business, we cannot afford to be passive observers," said William D. Pringle in his inaugural address at the NAIB's annual meeting last month at Sea Island, Ga.

"The willingness to work on critical emerging issues involves risk," he said. "But there is greater risk in standing back as an observer while others debate the future of our business."

Mr. Pringle said insurance company regulation and insurer solvency, as well as market volatility, are issues "that are critical to our future."

Respondents to an NAIB survey —including brokers, risk managers and regulators—agreed that the insurance industry must improve regulation and reduce insurer insolvencies to avoid government intervention, Mr. Pringle said.

"Most believed that if basic changes are not made in the near future by the industry itself, change will be forced upon us by market evolution, government regulation, or both," he said. "I agree."

'We cannot afford to be passive observers,' says NAIB President William D. Pringle.

However, survey respondents did not agree on how the problems can be solved.

Mr. Pringle said the NAIB's role is to act as both a compiler of research on critical insurance industry issues as well as a clearinghouse for information to public policymakers and a forum for brokers' perspectives.

And, Mr. Pringle said, the NAIB must remain active in the insurer solvency investigations being conducted by Rep. John Dingell, D-Mich., chairman of both the House Energy and Commerce Committee and the Oversight and Investigations Subcommittee (*BI*, Feb. 26).

"We will continue to work with the chairman of the House Energy and Commerce Committee to explain our role and our views on possible change," Mr. Pringle remarked.

"The work of Mr. Dingell and our regulators is vital to our future, and it is critical that we keep open the lines of communication," Mr. Pringle said.

The NAIB also has worked more closely with the National Assn. of Insurance Commissioners in recent years on issues such as insurer solvency, he noted.

The new NAIB president also urged members to increase their support for the NAIB Political Action Committee, or NAIBPAC.

"Like it or not, political contributions are the lifeblood of politics," Mr. Pringle said.

"We are not a large organization, but our message is important. We cannot whisper. We must speak with a loud and clear voice. We cannot opt out of the political process," he explained.

Mr. Pringle also is executive vp, director and member of the executive committee of Frank B. Hall & Co. of New York. He joined Hall in New York in 1964 and was transferred to Hall's San Francisco office in 1971. In 1972, he was appointed manager of the brokerage's Oakland office, a position he held until returning to Frank B. Hall of New York in 1974.

He also is the director emeritus and past president of the Insurance Brokers Association of the State of New York. ■

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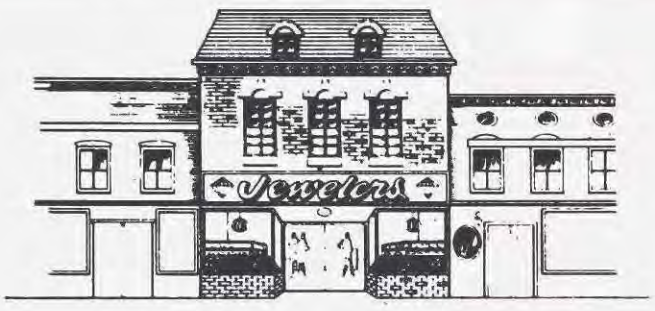


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Frank B. Hall's Pringle named president of NAIB

SEA ISLAND, Ga.—President William D. Pringle, an executive vp at Frank B. Hall & Co. Inc., heads the National Assn. of Insurance Brokers slate of 1990-91 officers and directors.

Mr. Pringle succeeds C. Richard Peterson, executive vp of Sedgwick James Inc., who will serve as past president on the NAIB's executive committee.

Other officers named at the NAIB's 56th annual meeting last month in Sea Island, Ga., included: First Vp Robert J. Murphy, senior vp and national marketing director of Alexander & Alexander Services Inc.; and Vp Alan G. Page, senior vp and director of Johnson & Higgins.

Philip F. Petronis, managing director of Marsh & McLennan Cos. Inc., will serve as the NAIB's secretary, and Kevin W. Conboy, president of CPI Insurance Group Inc., will again be treasurer.

Thomas F. O'Connell, president of Rollins Burdick Hunter Co. of Illinois, and J. Bransford Wallace, chairman of Corroon & Black Corp.'s brokerages services group, will serve as ex officio members of the executive committee.

Health agents' group proposed

WASHINGTON—The National Assn. of Life Underwriters' board of trustees has recommended the creation of a new association to serve the needs of agents who sell and service health insurance and employee benefits products.

The new organization, to be named the Assn. of Health Insurance Agents, or AHIA, would be an affiliate—known as a "conference"—of NALU, said Robert J. Wernecke, president of the life insurer trade group.

The proposal must first be approved by NALU's national council, which is composed of about 2,000 local association leaders. A vote is set for the group's September convention in Seattle.

Under the proposed plan, the AHIA would be a direct membership organization, with $50 annual dues, open to members of local life underwriters associations. Rather than forming local and state chapters, however, the affiliate would use the existing NALU federation to serve producers nationwide.

The AHIA will address issues affecting the individual health, group health, Medicare supplemental, long-term care, disability income and other health-related insurance markets.

The new association would also offer members up-to-date information on state and federal legislation, industry trends and health-related sales ideas, as well as an annual health insurance conference and regional one-day health seminars.

Although the association would be considered an arm of NALU and would use some of its staff, it would have its own executive committee, board of directors and personnel.

The AHIA's proposed structure is based on existing NALU conferences, like the Assn. for Advanced Life Underwriting and the General Agents and Managers Conference.

NALU, currently celebrating its centennial anniversary, is a federation of 1,000 state and local associations, comprising more than 140,000 members who are sales professionals in health and life insurance and related financial services. Its headquarters are in Washington, D.C. ■

Testimony highlights NAIB year

By LAURA MAZZUCA

SEA ISLAND, Ga.—Testimony on insurer solvency monitoring heads the list of National Assn. of Insurance Brokers efforts with legislators and regulators in 1989 and 1990, says the group's director of federal affairs.

At the NAIB annual meeting last month at Sea Island, Ga., Barbara S. Haugen outlined what she identified as the highlights of the past year:

- Testimony by Alan G. Page, senior vp and director of Johnson & Higgins; Barabara A. Guernsey, NAIB board member and executive vp of DSI Insurance Services; and John T. Sinnott, president of Marsh & McLennan Inc., in March before the House Oversight Investigation Subcommittee, which is examining insurer solvency.

The NAIB representatives recommended changes in solvency regulation, including minimum uniform financial standards for insurers with a strong enforcement mechanism (*BI*, March 26).

- At a National Assn. of Insurance Commissioners committee meeting in March, NAIB board member William F. Poland, senior vp of Jardine Insurance Brokers Inc., recommended ways to improve the reliability of insurer financial reporting.

The NAIB also worked with the commissioners in drafting the model Managing General Agent Act.

In addition, the NAIB served on an NAIC licensing advisory committee, winning support for reciprocal licensing procedures in a NAIC model bill on continuing education, said Ms. Haugen.

- NAIB representatives testified before U.S. Senate committees and filed comments with the Commerce Department to endorse revisions in the Risk Retention Act.
- The NAIB participated with the Risk & Insurance Management Society Inc. on a panel discussion of solvency regulation at the RIMS conference in May.
- The NAIB is negotiating with the American Institute of Marine Underwriters for a clarification of policy language to cover cargo when a ship is stopped for a drug search.

Ms. Haugen also noted that a record 275 people attended this year's NAIB meeting.

The previous record was set by 250 attendees at last year's conference. ■

August September October

Employee Development & Education

What are agencies doing to keep producers and other employees up-to-date on the insurance industry? BI editors will report on the types of in-house programs used for on the job training as well as the outside sources available for continuing employee education. In addition, this section will review the sources agents and brokers use to recruit new employees.

Most Productive Agencies/ Automation

BI editors track the most productive agencies and profile some of the industry's leading firms. This section will also have reports on how companies can pattern their operations after the success of others. In addition, how advances in automation influence productivity in insurance agencies will be reviewed.

Customer Service IIAA Conference Report

Are agents and brokers delivering what their clients are looking for? Editors will focus on how agents and brokers can improve the service they give to clients and look at customer service representatives, their responsibilities and their compensation. Plus, this section will report on happenings at the Independent Insurance Agents of America annual convention.

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Agent/Broker Topics

Minnesota agent groups plan merger

Economic, political efficiency sought

By LAURA MAZZUCA

MINNEAPOLIS—Spurred on by members who want more services and lobbying clout, lower dues and less duplication, Minnesota's two independent agent associations plan to merge by early next year.

"Members out there want one voice; they're tired of seeing two associations competing for everything," said Daniel D. Riley, executive vp of the Minnesota Assn. of Professional Insurance Agents.

The consolidation of the MPIA with the Independent Insurance Agents of Minnesota already has been approved by the national Independent Insurance Agents of America, which views the matter as "a states' rights issue," said James Peterson, executive vp and treasurer of IIAM.

But many observers are concerned about the approval of the national National Assn. of Professional Insurance Agents, which has historically opposed mergers among IIAA and PIA state chapters (*A/BT*, Oct. 3, 1988).

Should the national PIA directors fail to sanction the merger at their July 14 quarterly meeting, officials of the Minnesota associations say they will proceed with the merger anyway.

"Both of our organizations belong to the agents. The final determination is what the agents feel is necessary," said Mr. Peterson. "For anyone to lose sight of that means that they're in the wrong business."

Action in Minnesota seems to be part of a new hard-line attitude by state members tired of paying dues to two organizations for many of the same services, observers say.

Michigan agents, who launched an unsuccessful consolidation attempt almost six years ago, are trying again, said Fritz C. Lewis, executive vp of the Independent Insurance Agents of Michigan.

Like Minnesota, both the Michigan PIA and IIAA boards have approved a mission statement that says if their joint memberships want to consolidate, they will proceed to do so regardless of whether their national associations approve, said Mr. Lewis.

"It's an idea which can catch on in other states if a couple of states tumble," he added.

So far, however, Minnesota has come closest to consolidation, in part because the two associations there have a unique history of cooperation, said Mr. Peterson.

Since 1983, members of the two groups have worked together on a joint legislative committee and also have jointly acted as managing general agents for the State Fund Mutual Insurance Co. The for-profit corporation, set up seven years ago by the state as an alternative market for workers compensation coverage, writes more than $30 million in premium volume through IIAA and PIA member agents, said Mr. Peterson. "It showed us that we were able to cooperate."

With past successful collaborations in mind, the associations created a joint committee in June 1988 to examine consolidating leadership from both sides represented, said Mr. Peterson.

Once a merger plan was developed, the joint committee surveyed members of both organizations last month to assess opinion on the merger.

"The response was overwhelming," said Mr. Peterson.

The two groups mailed out about 3,600 questionnaires, and more than 90% of 1,300 responses were in favor of continuing merger efforts.

The proposed consolidation would leave one 18-member board of directors, one from each association from nine regions. Mr. Peterson would serve as the new executive vp and treasurer, and Mr. Riley would be president.

Members of the IIAM and MPIA will automatically become members of the consolidated association, with all the benefits from automatic membership in both associations.

'Our intention is to do everything we can to keep our national affiliations,' says Daniel D. Riley.

Annual dues will range from $290 for single-producer agency to $1,040 for an agency with up to 11 licensed producers. This represents a reduction for agencies now belonging to both associations, but a "slight" increase for those currently belonging to only one, Mr. Riley said.

He estimates that the new dues structure would save $100,000 to $150,000 per year overall for agents now holding dual memberships.

A final determining vote by the memberships of both associations will be held in September during the state PIA convention in Minneapolis.

About 45% of the IIAM's members (comprised of 700 agencies and more than 2,000 producers) and MPIA's 1,500 producers currently belong to both associations, he added. Following consolidation, there will be a total of about 1,200 member agencies and 2,900 producers, said Mr. Peterson.

The merger will increase the profits of the national IIAA and PIA, since each association will gain new members from the consolidation, said Mr. Riley.

Under the current financial structure, the state associations—which are separate franchises of the national associations—send a percentage of member dues to their respective national parents, he said.

For example, the national PIA currently gets about $82,000 per year from the Minnesota affiliates, which is roughly 30% of the local dues collected. This figure will jump to about $132,000 after consolidation, Mr. Riley estimates.

However, if the national association dissociates itself from the Minnesota consolidation, it will lose this funding.

Proponents of the consolidation say that combining the two associations will create a single, more powerful presence in the state, especially for lobbying clout.

"Politicians would rather hear from one organization rather than two—I can say that for certain," said Ken McGregor, president, McGregor Insurance 2000 Inc. of Kingsford, Mich. Mr. McGregor was the president of the Michigan PIA during the failed consolidation attempt of six years ago.

But for observers, there is a decided downside to consolidation. Internecine squabbles top the list of complaints.

"It's like combining two school districts with only a bridge separating them," said Mr. Lewis of the Michigan IIAA. While consolidating the two would result in better educational programs and an increased budget, "you'd get hung up on who's going to be the school superintendent and who's going to be the football coach."

In states like Wisconsin, where small, rural agents—predominantly PIA members—and their larger urban counterparts—IIAA members—are more sharply divided, the problem is more serious, said Mr. McGregor.

In this case, the smaller agents fear being lost in the shuffle and overpowered by the larger agents if a merger or consolidation takes place, he said.

"Whenever there's a merger of any two businesses, one party is stronger than the other," he said.

In fact, this was the main concern of the Michigan PIA when it voted against consolidation the last time, he said.

This is also the primary concern of national PIA, said Richard D. Yingling, current president of the association.

"Our concern is that our members be served properly, and I don't know if one association can be all things to all people or not," said Mr. Yingling. "There is something to be said about the competitive aspects of two organizations; we keep each other on our toes."

While Mr. Yingling insisted that the national PIA is not necessarily opposed to a Minnesota merger, he pointed out that since state affiliates are franchised by the national organization, they can be cut loose if the national board does not approve of their actions.

Mr. Yingling also stressed that the final decision on the Minnesota action would be made by the 80-member national board of directors.

"If Minnesota comes forward with the documents we asked for, we'll find time on the agenda to study them," he said.

In the meantime, Mr. Riley and others believe that once the national PIA studies the consolidation plan, it will approve it.

"Our intention is to do everything we can to keep our national affiliations," he said. ■

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lized, there is more commitment," noted M&M's Mr. Drake.

Lawrence Greenfield, co-president of Walter Kaye Associates Inc. in New York, said that while "publicly" insurers are committed to rate increases, "practically, I haven't seen it. It wasn't there for July 1 renewals," he added.

Brokers, as securities analysts, attribute continuing soft market conditions to an overabundance of capital in the property/casualty insurance marketplace (see story, page 40).

There is "too much surplus chasing too small a premium pool," explained Mr. Greenfield.

"There's plenty of capital in the market and a glut of reinsurance available at low rates," contends Stephen J. Ware, managing director of brokerage Mesirow Financial Corp. in Chicago.

And, while several brokers said insurers are attempting to protect their market share by holding on to their existing clients, a few observed a greater willingness among insurers to offer lower rates to gain new business than to retain their existing accounts.

Although rates in all lines are "very competitive," Robert L. Ludwig, regional managing partner of McDonough Caperton Insurance Group in Charleston, W.Va., said insurers tend to offer greater rate reductions on new business and "hold the line" on renewals.

Richard A. Maxwell, senior vp and director of marketing and professional standards for Corroon & Black Corp. in New York, said some C&B branch offices cite greater competition among some insurers for new business and among others for renewal business.

Mr. Maxwell offered an explanation for this phenomenon.

"A number of carriers have really tried to put in force increases in their renewals and some are doing better than others at sticking to that stand," he said.

"However, among some of those companies, their branch offices are going after new business with a vengeance because their home offices can't track" rate reductions offered to attract new business as easily as rate reductions on renewals, Mr. Maxwell explained.

"Other carriers are more interested in protecting their renewals. It's a definite contradiction," he added.

But, Mr. Maxwell stressed that in the jumbo account arena, insurers have no across-the-board rating policy and underwriting postures are determined on an account-by-account basis.

J. Patrick Gallagher, vp-operations at Arthur J. Gallagher & Co. in Rolling Meadows, Ill., also has found some insurers that are resolved to raise rates, even if it means losing renewal business. But, he said, they're replacing those accounts with new ones from other insurers and the business "keeps moving around."

"Main Street" small to medium-sized commercial businesses are finding an especially receptive market when renewing property/casualty insurance, brokers note.

In fact, M. Renwick Severance, vp-special services for Republic Hogg Robinson Inc. in Boston, said that "underwriters are tripping all over themselves" trying to get that business.

Rates for Main Street property/casualty risks are "still going down," agreed Joseph E. Brown, president of the retail division of Poe & Associates Inc. in Tampa, Fla.

Main Street package business is "very soft—the market is wide open. All standard insurance companies want that business and have designed special packages, many of which can be bound in the agent's office," said Mesirow's Mr. Ware, though he added rates for these packages now are beginning to bottom out.

"Everyone wants to play in Main Street," agreed Sedgwick James' Mr. Ruoff. Not only are more insurers eager to write that business, there also is a greater degree of competition from local or regional agents and brokers, he said.

Despite the spate of catastrophe losses in 1989 and thus far in 1990, the property insurance market remains very competitive—both for highly-protected risks and non-HPR risks.

Although all brokers say property coverage is readily available, some reported continued rate reductions and others observed a more stable rating environment.

"We cease to be surprised at the next lowest quote and the next lowest quote and the next lowest quote. There is no bottom and no logic," said Walter Kaye's Mr. Greenfield.

Mr. Ruoff cited rate reductions on HPR risks of up to 10% and on non-HPR risks of up to 20%.

"This is a change from Jan. 1, when rate reductions were well below that level. There seems to be a breathing space that took place between 1989's catastrophe losses and the finalization of insurers' year-end numbers," Mr. Ruoff said.

However, Edward Shumaker, senior vp at Anderson & Anderson Insurance Brokers Inc. in Irvine, Calif., said the market "is very flat for almost all property coverages."

Mr. Sorensen agreed with Mr. Shumaker that property insurance rates are relatively stable, but he noted that "the definition of HPR has expanded as the market has gotten more competitive."

J&H's Mr. Batonick also agreed, adding that "HPR markets are trying to tighten rates, but if there's competition, they're not very successful.

"A lot of non-HPR markets are out there, and many of them are taking business away from HPR markets. Clients don't get the same engineering services or limits from those insurers, but some clients are doing it for the price," Mr. Batonick added.

Although Hurricane Hugo and the California earthquake last fall were followed by devastating European windstorms and a series of tornadoes across the United States this year, even earthquake and windstorm coverages are still readily available for nearly all commercial accounts, brokers agree.

For U.S. property risks, there "doesn't even seem to be a blip" from those catastrophes, although there have been "some substantial property rate increases in the Caribbean," which sustained heavy damage from Hurricane Hugo, said Corroon & Black's Mr. Maxwell. While he characterized the disasters as "extremely serious, they haven't seemed to have had an effect" on rates or capacity.

The windstorms that hit Europe in January and February "are influencing the property market there, but not here," said Walter Kaye's Mr. Greenfield. He added that windstorm and earthquake exposures are "being ignored in the pricing of business to a greater and greater extent" for multiple location risks.

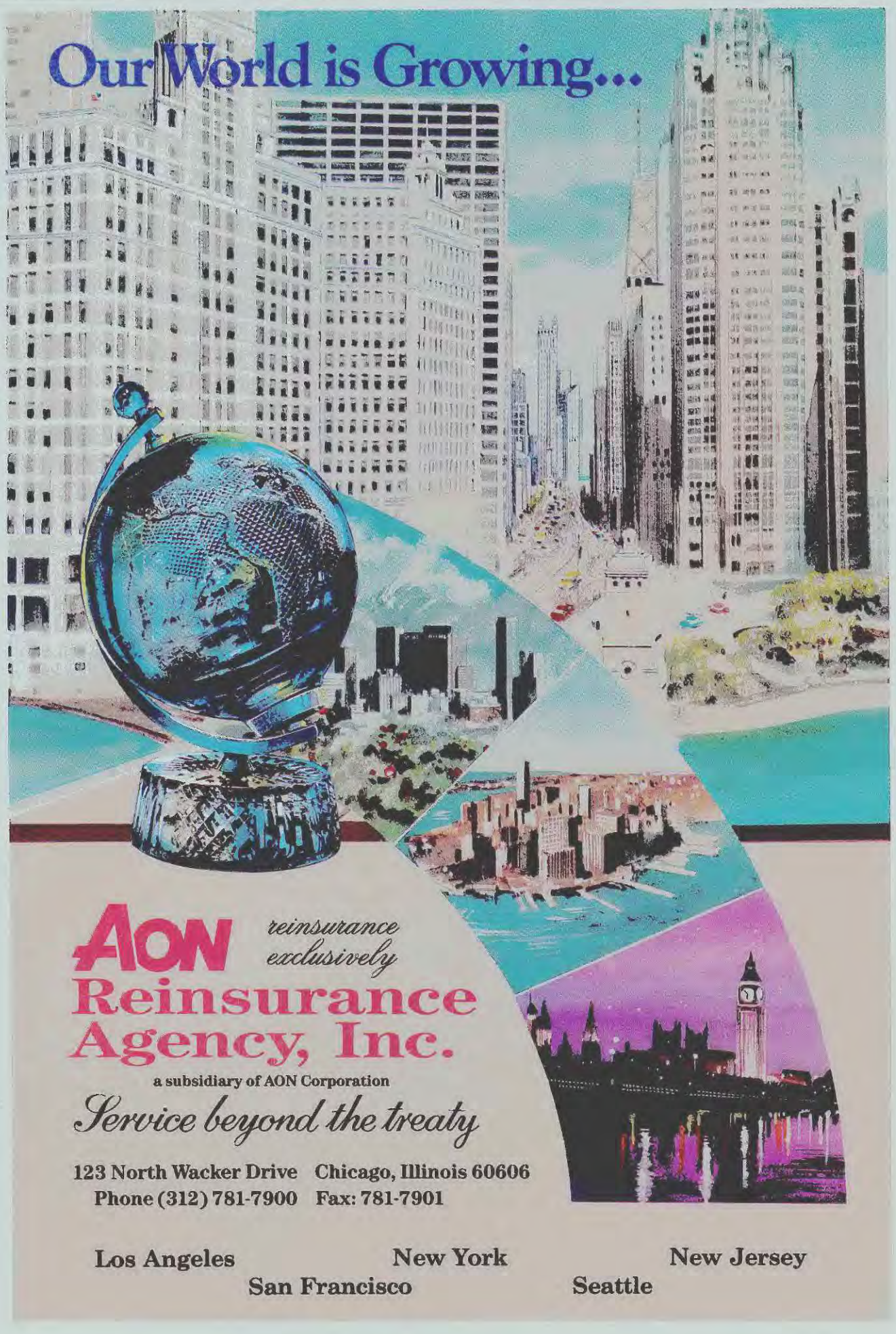
Even businesses located in the Southeast and on the West Coast are not having any difficulty purchasing windstorm or earthquake coverage, although they may not be seeing rate reductions, said Sedgwick James' Mr. Ruoff.

And, Thomas A. Clarke, a managing director at Marsh & McLennan Inc., noted that while the actual dollar losses from the earthquake, Hugo and major storms that have occurred this year have been significant, a lot of those losses have either been uninsured or have been felt largely by personal lines insurers.

While the property market generally remains competitive, a few brokers said that pure petrochemical risks continue to see rate increases and/or more restrictive policy terms and conditions following last fall's Phillips Petroleum Co. petrochemical plant explosion in Pasadena, Texas (*BI*, Oct. 30, 1989).

"Petrochemical, because of the Phillips disaster, is a market that is tightening. It has always been a limited market, so it is a lot easier for

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Brokers' views

Continued from previous page

insurers to raise rates," said J&H's Mr. Batonick.

In addition to implementing "moderate" rate increases, petrochemical property insurers are reassessing their catastrophe exposures. Some are "taking smaller retentions and ceding more" of those exposures to reinsurers, Mr. Batonick explained.

In the large account casualty market, high-layer excess coverages are still readily available and prices generally are not rising, brokers say.

Catastrophe excess layers are "seeing slight (rate) reductions to stable prices. It remains a solidly competitive market," said RBH's Mr. Sorensen.

"There is an abundance of occurrence coverage and major carriers that will write large blocks of limits over primary coverages," said J&H's Mr. Kerekes.

"There are some underwriters that are trying to establish minimum premium levels, but they do not want to lose the business," he adds.

"Some companies are back in the market with lower premiums per million than last year," said Walter Kaye's Mr. Greenfield. In fact, he said that some insurers that were offering excess coverage at $5,000 per $1 million of insured value last year are now offering the same coverage for $3,000 per million.

Mesirow's Mr. Ware said that it "isn't unusual to see $1,000 per million in pricing. We have even seen $750 per million offered in layers above $5 million for fairly innocuous risks," he noted.

Primary and low-layer excess liability coverages for low-hazard risks also remain quite competitive during July renewals, brokers say.

"We're sometimes surprised when the market quotes even deeper discounts than we expected," said Republic Hogg Robinson's Mr. Severance. "There are hungry underwriters out there."

"There is clearly still an appetite for low-hazard liability risks and there may be slight rate reductions in that area," RBH's Mr. Sorensen said.

There is "a lot of capacity" for low-hazard liability risks, A&A's Mr. Jones agreed, adding that clients are seeing "the same pricing or reduced pricing for excess and some stabilizing on the primary side."

For long-tail liability exposures, the marketplace is more stable, with slight increases to slight decreases, depending upon the line of coverage and insurers' appetites for that business, brokers explain.

"Rates are flat, presuming the client has a positive loss record and there has been no significant variance in its exposure base," said Mr. Sorensen.

Mr. Greenfield said the market for long-tail liability insurance is "probably the most stable market. Not a lot of people are chasing that business," and rates are "flat to down slightly," he observed.

Some brokers say they have observed a tightening of the directors and officers liability market, particularly for financial institutions.

Sedgwick James' Mr. Ruoff said that D&O is "only modestly competitive, with some cases of rate increases or changes in terms—mainly for financial institutions."

The D&O market is "fairly stable, except for banks or savings and loans. For those risks, it depends upon the strength of the institution," said M&M's Mr. Drake.

"Financial institutions are experiencing increased difficulty in terms of breadth of coverage and pricing. There can be significant price increases, depending upon the underwriter's assessment of the risk," agreed RBH's Mr. Sorensen.

And, a couple of brokers say medical malpractice coverage has become more expensive and harder to secure for large hospitals in some states since London-based H.S. Weavers (Underwriting) Agencies Ltd. ceased writing business or renewing existing accounts this spring (*BI,* April 9; April 2).

"The only hazard having a hard time with the Weavers situation is hospital professional liability risks," said Hall's Mr. Goulard.

"Medical malpractice was somewhat affected by Weavers. We were able to replace those coverages domestically with up to 20% to 25% increases," said A&A's Mr. Jones.

And, Mr. Greenfield said that hospitals in the New York City area buying medical malpractice insurance have seen "substantial increases, or the point of attachment on their excess coverage is being moved up," based on adverse loss experience in that state and the absence of Weavers as a market for those risks.

But, insurers have reacted much more favorably than most brokers had anticipated when Weavers' underwriting moratorium was first announced. At that time, several brokers predicted that the loss of Weavers would have widespread negative ramifications in the liability insurance market.

In fact, medical malpractice is the only line of coverage underwritten by Weavers that brokers say has posed replacement problems. Nearly all Weavers policyholders, except medical malpractice accounts, have been able to secure comparable—and sometimes broader—coverages at pricing brokers characterize as reasonable.

Brokers did observe that individual Weavers policyholders might, however, run into market difficulties, depending upon their specific exposures and loss experience.

"The Weavers situation really hasn't had much of an effect at all" on the market, said A&A's Mr. Jones. In fact, he said that several insurers "were calling and writing us asking us to let them provide their services" following the moratorium announcement, he said.

"The ultimate ramification (of Weavers) was a yawn," said Mr. Gallagher.

M&M's Mr. Drake said that there has been "no appreciable change caused by Weavers. The majority of Weavers placements we've negotiated have been at terms comparable to Weavers" and for not much of a price difference, he added.

Brokers said that it depends upon the client and the circumstances whether Weavers policyholders elect to remain with the line slip until their coverages expire or switch to another insurer during midterm over concern about Weavers' ability to pay future claims.

Meanwhile, some brokers also point out that the market for surety bonds, a line of insurance that has been tight for the past several years, has been showing signs of improvement.

Because 1989 was the first profitable year the surety industry has reported in the past several years, surety underwriters are looking "cautiously" for new accounts, said C&B's Mr. Maxwell.

A&A's Mr. Jones said surety insurers have "regrouped and things seem to be pretty stable."

But, M&M's Mr. Clarke said that finding surety insurance can still pose a "major problem" for highly leveraged companies.

And, Armstrong/Robitaille's Mr. Robitaille said that both surety bonds and bankers blanket bonds are "harder to place," because of "more stringent underwriting."

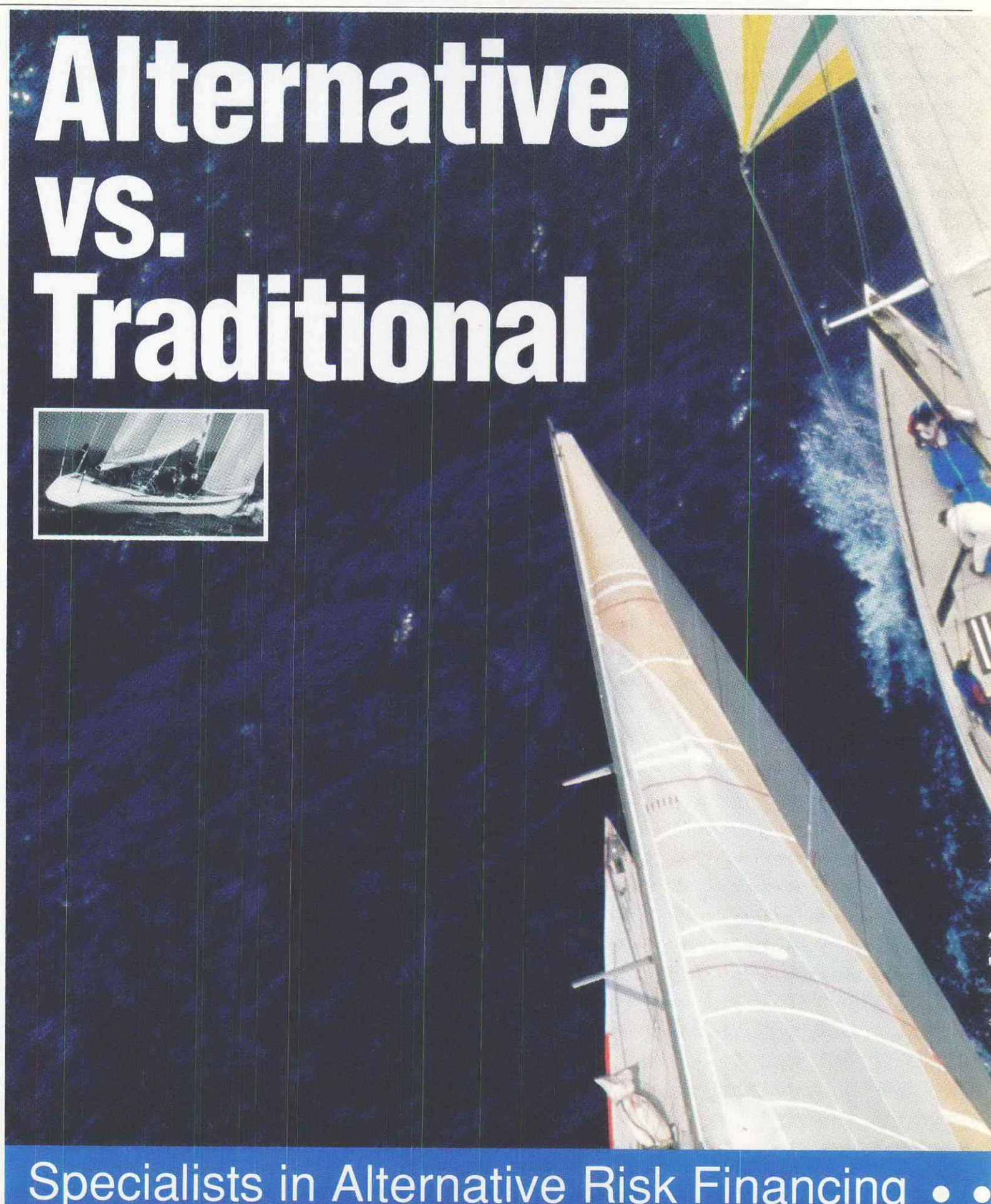
RBH's Mr. Sorensen characterized the bankers bond market as "consistent."

The aviation and marine insurance markets "continue to be competitive, but we are beginning to sense a possible change in both of those area," Mr. Sorensen added.

"As a result of loss experience and certain recent catastrophes, those insurers are talking about rate increases," he added.

Mr. Maxwell agreed with Mr. Sorensen that the aviation and marine markets remain competitive this summer.

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The market for airlines, aircraft product liability and corporate-owned jets "continues to be very soft. We are still seeing reductions and hoping for some flattening by the end of the year," Mr. Maxwell said.

And, he described the hull and cargo marine markets as "terribly soft. We are very rarely seeing increases unless the account has really poor losses."

Mr. Maxwell said some marine accounts are "40% to 50% below what would be considered an adequate level. Although some U.S. markets have tried to hold the line, there's a great deal of foreign capacity available—particularly in London."

All brokers cited workers compensation as the most problematic coverage line for July renewals, as it was in January. In the workers comp market, escalating costs and restrictive conditions are the rules rather than the exceptions (*BI*, March 19).

In fact, brokers characterize the workers comp market as a disaster in several states—particularly Texas, Louisiana, Maine, Rhode Island and Florida—and are seeking alternatives to commercial work comp insurance whenever possible.

M&M's Mr. Clarke, chairman of the broker's Workers Compensation Challenge Committee, said "there are no simple answers. Every account has to be looked at separately."

For example, some clients are opting for deductibles offered by an increasing number of workers comp insurers in various states to reduce residual market charges, he said.

Others, Mr. Clarke said, are self-insuring workers comp exposures, adopting workers comp medical cost containment programs and/or improving employee safety programs.

Workers comp "is a serious area of concern for many insureds, depending upon the states in which they have that exposure," said RBH's Mr. Sorensen.

"There are different techniques insurers are developing to help clients minimize the impact of costs" related to residual market charges in certain states, including deductible programs and self-insurance of those exposures in some states, Mr. Sorensen agreed.

Meanwhile, some brokers say that buyers have little or no interest in alternative risk financing mechanisms for risks other than workers comp.

There is "zip, zero," interest in starting up new alternative risk financing mechanisms, said ABI's Mr. Mizel.

Armstrong/Robitaille's Mr. Robitaille agreed.

But others see continuing interest in alternate mechanisms, despite the soft market, because risk managers are getting more savvy about cycles.

"There has been a continued interest in alternative risk financing mechanisms, especially since the great increases in our territory for workers comp," said Poe's Mr. Brown.

And, J&H's Mr. Kerekes said he "absolutely" sees continued interest in these mechanisms—particularly in the workers comp area, but in other casualty lines as well. "We feel these are real alternatives."

Brokers generally said the market would not turn before next year, though some said they could not even venture a guess when rates would rise across-the-board.

Also, brokers do not agree on how significant rate increases will be when prices finally go up.

"I used to think that maybe because of the last hard market that the industry would find a way somehow to mitigate another real tight slamming upturn," Mr. Gallagher said. But, in a free-market economy, people tend to cut prices until a point where they can't cut them any lower, he said.

Then, "they don't care if someone else takes their business, they really have to fix the situation, and that always tends to happen in bulk. I foresee that happening again," Mr. Gallagher said, noting that pressures of the market demand underwriters cut prices, even though return on equity is down and cash flow is thin.

Mr. Robitaille, however, believes the "wide swings of the mid-'80s" will not be seen and upturns will be "moderate."

And, although Mr. Ludwig of McDonough Caperton said, "If you look at the way loss ratios are running, you've got to think that within a year rates will have to go up," he added he doesn't foresee major changes.

M&M's Mr. Clarke agreed. "Even when it does change, in our view it will not be drastic as it was in 1984-1985."

"The market may have changed permanently and we may never see another broad hard market again," Mesirow's Mr. Ware speculated.

Other brokers were reluctant to predict a change in the marketplace.

"I don't see change coming or know what will bring about a change," said Poe's Mr. Brown.

"I don't see any change right now. I can't predict any appreciable modification in the present circumstances," observed ABI's Mr. Mizel. ■



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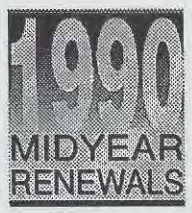
Commonwealth Risk Services, Inc.

Rates cut by many surplus insurers

By MEG FLETCHER and STACY ADLER

Excess capacity for both property and liability risks in the admitted market is forcing many surplus lines insurers to cut rates to attract or maintain business.

Many surplus lines insurers are cutting rates as much as 10%, insurers and brokers said.



Some non-admitted insurers, though, are insisting on rate increases for some risks and are seeking rate hikes of 10% or more, they said.

Others are just trying to hold the line on rates, they said.

Surplus lines insurers earlier this year thought the soft market had bottomed out and predicted that rates in the non-admitted market would stabilize this year and next (*BI*, Jan. 1).

They still believe the surplus lines market is near or at the bottom of the cycle, but they now expect the market to remain soft for at least the next six months.

And, a few observers fear the soft surplus lines market might last as long as two more years.

Excess capacity in both the admitted and non-admitted markets for both property and liability risks is fueling the low rates, observers noted.

Many buyers seeking to renew property coverages found themselves dealing with a market offering ample capacity, sources said.

Earthquake risks can find $300 million in limits, a 20% increase compared with last year, according to Donald Sherwood, chairman and chief executive officer of broker Sherwood Insurance Services in San Francisco.

However, capacity for earthquake coverage is down to $300 million in limits from $400 million a year ago, said Kieran P. Burke, president of Tri-City Insurance Brokers Inc. of New York.

Most liability risks—except pollution and professional liability risks—can obtain limits of $300 million to $500 million, said Kenneth Woods, president of California Union Insurance Co. in Los Angeles, a CIGNA Corp. unit.

Continued on next page

Surplus lines

Continued from previous page

"Any risk manager can find ample capacity in today's marketplace," said Janet Nelson, president of St. Paul Surplus Lines Insurance Co., a subsidiary of The St. Paul Cos. in St. Paul, Minn.

However, capacity for bankers blanket bond coverage has dropped 10%, according to Dan Colacurcio, executive vp and Western division manager of broker Swett & Crawford Group in Los Angeles. Mr. Colacurcio would not elaborate.

Some of the accounts surplus lines insurers are competing for are risks that the admitted market is shunning, including general and maintenance contractors and nurses professional liability, brokers and insurers said.

Meanwhile, the admitted market continues to have an appetite for many risks that have traditionally been written in the surplus lines market, including high-hazard liability risks such as chemical and pharmaceutical manufacturers.

A company like Crum & Forster Inc., which has both surplus lines and admitted insurer units, has a market advantage in being able to move some renewing business to an admitted insurer from a surplus lines insurer, said David N. Thompson, chairman and chief executive officer of Crum & Forster Managers Group and president of International Surplus Lines Insurance Co., both of Chicago.

Buyers find admitted insurers attractive because they are often bigger companies that offer the security of greater regulatory scrutiny and guaranty fund protection, he said.

Overall, surplus lines insurers generally have found this renewal season "weak," said Daniel Kestenbaum, chairman of broker Alexander Howden North America Inc. in Atlanta, a subsidiary of Alexander & Alexander Services Inc. "It's certainly weaker than what was predicted in the fall of last year," he said.

"The scenario is no different than the last several years. We are fighting to keep every piece of business. If we finish the year flat, we'll be doing very well," said Thomas S. Bloom, president of broker Willis Faber Holdings Inc., the Grand Rapids, Mich.-based wholesale brokerage subsidiary of Willis Faber P.L.C. in London.

"Too many people are trying to eat off a plate with ever-diminishing proportions," observed Charles Garrison, president of E&S Facilities Inc., a regional broker based in Birmingham, Ala.

Brokers and insurers say the nonadmitted market is softer for some risks than it is for others.

For example, during July 1 renewals, renewing policyholders were more likely to get better deals than new business, most surplus lines insurers said.

"Our comfort level is higher with renewal business," explained Vickie Kartchner, vp-specialty underwriting division of Scottsdale Insurance Co. of Scottsdale, Ariz.

But some observers disagreed.

For example, some non-admitted insurers are trying to stabilize rates for existing business and are using rate cuts to attract new accounts, said Mr. Burke of Tri-City.

In general, many insurers are offering to cut property insurance rates about 10%, most sources said.

But, some underwriters are cutting property rates as much as 25%, said E&S Facilities' Mr. Garrison.

"The worst mistakes being made at the moment are in lines like large property risks with more than $100,000 in annual premium," said Ralph Palmieri, president and chief operating officer for Boston-based First State Insurance Co., the surplus lines insurance unit of Hartford Insurance Group Inc.

However, some said rates for some property coverages are increasing 5% on average.

For example, rates for vacant commercial buildings are up, said Henry J. Stone Jr., president of Connecticut Underwriters Inc. in Portland, Conn.

In addition, property insurance buyers with earthquake risks are generally being hit with increases of as much as 30%, many agree.

But, Sherwood Insurance Services' Mr. Sherwood said buyers can expect to pay from 10% more to 10% less for earthquake protection.

On the liability side, brokers and insurers said rates tend to be slightly lower or flat for municipal liability coverages, excess workers compensation, asbestos abatement, directors and officers coverages for non-profit corporations, and railroad liability.

"We see the least deviation in railroad liability, which is renewing as is," said Cal Union's Mr. Woods.

Most sources said rates are generally flat or slightly higher for directors and officers and bankers bond coverages.

D&O is renewing "in the same ballpark," Willis Faber's Mr. Bloom said.

But, some brokers and insurers disagreed, saying D&O rates were renewing at decreases ranging from 5% to 20%.

Several sources also have seen a mixed market for errors and omissions coverages.

For example, professional liability insurance rates for architects and engineers are down 15% to 50%, depending upon the state and the insurer, said Douglas C. Dolan Jr., senior vp with underwriting manager The Schinnerer Group Inc. in Chevy Chase, Md.

Others, though, said rates for professional liability coverages are relatively stable. And, several sources report professional liability rates are rising.

For example, First State's Mr. Palmieri said rates were up 5% to 10%.

Tri-City's Mr. Burke said they ranged from flat to 30% higher.

Surplus lines insurers and brokers noted some geographical differences in pricing as well.

"Rates in New England held better than in other areas of the country," said Joseph M. Walsh, president of American Empire Surplus Lines Insurance Co. in Cincinnati, Ohio.

However, "California is the best market around," said Derek Hughes, president of Western World Insurance Co. in Ramsey, N.J.

Rates were cut most often in the Southeast, many insurers and brokers agreed, while others said the market was particularly soft in Pacific Northwest and the Midwest.

Surplus lines underwriters mentioned as cutting prices were Scottsdale; American International Group Inc.; and The London Agency Inc., a Crum & Forster specialty lines underwriting unit.

But Ms. Kartchner said the perception of Scottsdale as a price cutter was wrong: "Scottsdale's pricing is stable and has been for some time."

John Griffin, chairman and chief executive officer of The London Agency in Atlanta, said: "I want to be known as a leader in the umbrella marketplace. We are comfortable with our pricing methodology. Just because we are lower in price than other insurers doesn't mean we are wrong."

Though some non-admitted insurers are cutting rates, many say they still are walking away from business rather than write coverage at inadequate prices.

"The majority of surplus lines companies are showing a good deal of discipline in this soft market, and they are trying to firm up prices wherever possible," said Mr. Palmieri of First State.

However, some insurers have been willing to liberalize policy terms, he said. For example, buyers now may be able to get coverage for pollution resulting from unintended fires, when two years ago they could not.

The non-admitted market is not expected to harden for at least six months to two years.

"We really are projecting no change change for one to two years," said Orville D. Jones, president and chief executive officer with Crump E&S Group in Dallas.

Whenever the market turns, though, the hardening will be gradual, most observers predict.

A repeat of triple-digit rate increases is unlikely because "the regulators would be on us in a millisecond," said Kevin P. Brooks, president of General Star Indemnity Co., a subsidiary of General Reinsurance Co. in Stamford, Conn.

"With Proposition 103 and the McCarran-Ferguson Act being threatened, the insurance industry is too smart to have another availability/affordability crisis," said Mr. Garrison of E&S Facilities Inc.

Most observers acknowledged that the longer the market stays soft, the more likely the turn will be severe.

Willis Faber's Mr. Bloom pointed out: "There is a good chance of going through the same scenario as 1984-1985." ■

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Risk managers

Continued from page 1

same price as the year before, he said. Lloyd's of London syndicates and Norwegian market insurers write the coverage.

Pacific Enterprises is the parent company of Southern California Gas Co. and Thrifty Corp., a drug store chain, both based in Los Angeles, and Pacific Enterprises Oil Co. (USA) of Dallas.

Frank Early, director of insurance at United Van Lines Inc. in Fenton, Mo., said the D&O renewal he completed in May was a breeze: "We had no problems."

He jokes that "you never get the price you want," but adds that United Van Lines "did quite well" on the cost of its D&O coverage, which is written by Chubb to a limit of $20 million.

'We will have no difficulty in getting all the limits that we need,' Mr. Sterling predicts.

Risk managers say their casualty coverages are being renewed at near 1989 prices and capacity.

"We were very surprised we were able to increase limits without an increase in the contract price" at the June 1 renewal of excess liability coverage, says Larry Farrier, risk manger at Sealey Inc. in Cleveland.

In fact, he added, the mattress manufacturer boosted its umbrella limits by $25 million to $75 million while premiums actually decreased slightly.

"Nobody I've run across has had any problems" renewing excess liability coverage at reasonable rates, Mr. Farrier remarked.

Idaho Power Co.'s casualty coverages renew on July 15, and risk manager Randy Meyer said he sees no reason to discontinue contracts with Bermuda captive Associated Electric & Gas Insurance Services Ltd. and industry captive Energy Insurance Mutual Ltd. in Barbados.

The Boise-based utility will purchase excess liability limits of $25 million from AEGIS above its $500,000 retention, according to Mr. Meyer.

EIM writes another $75 million in coverage above that layer, giving Idaho Power a total of $100 million in coverage, he says.

Last year, Idaho Power's $100 million in coverage above the same $500,000 retention consisted of a $35 million layer written by AEGIS and an additional $65 million in coverage written by EIM.

The $100 million limits include pollution liability coverage.

Mr. Meyer said he expects rates to remain near 1989 levels, increasing a maximum of 5%.

Idaho Power has never tapped its coverage with the captives, Mr. Meyer said, settling all claims through its self-insurance program.

"We found the capacity to be there still" for Centel Corp.'s liability insurance needs, said Rebecca Gilman, risk manager.

But, she added, the Chicago-based telecommunications company "did not find the soft market out there for our particular type of risk." Ms. Gilman said rates rose slightly for the company's general liability coverage renewed this summer.

"It was a nice, easy renewal, but we didn't see a lot of give on the part of the insurer," Ms. Gilman said, adding "the price did go up, but not a great deal."

Centel increased its liability limits by $25 million at this year's renewal to a total of $125 million, according to Ms. Gilman.

CNA Financial Corp. writes a $1 million primary layer and the first $5 million of excess coverage, she said. A number of insurers are involved in the remaining excess layers.

Tampa General Hospital is in the market for excess professional liability coverage as it changes from a public facility to a not-for-profit corporation under section 501(c)3 of the Internal Revenue Service code.

"Availability and pricing seem to be realistic," said Gregg Waddill, hospital director of legal and risk management services.

Tampa General is looking for $20 million in malpractice coverage above a yet-to-be-determined self-insured retention. So far, the London market has been receptive despite the loss of H.S. Weavers (Underwriting) Agencies Ltd. as a source for the coverage, he said (*BI*, April 2).

Weavers' absence "is certainly a loss, but the market is going to fill the gap," Mr. Waddill added. "They were the lead player and have been for years. (But) there are other underwriters in that market that are available."

John Must, vp of support services at Lafayette General Medical Center in Lafayette, La., said he doesn't expect any drastic rate increases or availability problems when the center renews its property/casualty coverage later this year.

Although Mr. Must said he is marketing the center's excess professional liability coverage this year, he expects to renew a $2 million layer with The St. Paul Cos. Inc. at a slight increase in the price.

Rates will rise a bit as part of the general trend of increasing prices, Mr. Must remarked.

"I anticipate, unless there is some major difference out there, that we will renew with the same carrier," he said.

"I think (the medical industry) will continue to see a continuing trend of escalating premiums, but at a slower rate than in the past," Mr. Must said.

The center's $2 million excess layer is written above $625,000 in coverage that includes a $125,000 self-insured retention and $500,000 in coverage from the Louisiana Patient Compensation Fund, according to Mr. Must.

Tim Sterling, director of risk management and property taxation at Mississippi Chemical Corp. in Yazoo City, Miss., said the company's "entire portfolio" was slated for a July 1 renewal.

"We will have no difficulty in getting all the limits that we need," Mr. Sterling predicted. And those limits should cost about what they did in 1989, he added.

Mississippi Chemical plans some changes in its workers compensation program this year, according to Mr. Sterling. "There's a very strong possibility that we will be self-insuring 97% of our workers comp exposure," he said.

Because the company's loss experience in the workers comp area has been favorable, "we felt self-insurance would be the best way to go," Mr. Sterling explained.

Besides, he added, underwriters in Mississippi are not eager to write workers comp coverage because a 13% rate increase granted in June was less than half the 29.3% they had sought.

Insurers "view this to be a day late and a dollar short and are endeavoring to pull back on that book of business," Mr. Sterling contends.

He said Mississippi Chemical plans to self-insure its workers comp exposures in Mississippi and New Mexico and will continue to purchase coverage through assigned risk mechanisms for the 3% of its risk that is outside those states.

Continued on next page



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Risk managers

Continued from previous page

Mr. Sterling said he expects an uneventful renewal of Mississippi Chemical's property and business interruption insurance covering an exposure of "several hundred million" dollars.

Other risk managers said they too were looking at routine property renewals, but some want to see some extras in the coverage this year.

Paula Krainz, insurance manager at Amdahl Corp. in Sunnyvale, Calif., said the mainframe computer manufacturer is looking for some changes when it renews its property insurance program written by CIGNA Corp. this month.

"Basically we are trying to go with a rate reduction, in spite of what we've been hearing," she said, referring to reports that rates may be rising.

The computer company also will be seeking higher deductibles and a multi-year commitment from CIGNA, which has written its $117 million in worldwide property coverage for 10 years, according to Ms. Krainz.

Competition for the account and speculation about rising rates have combined to make Amdahl more demanding.

"We are expecting a little more creativity on the side of the insurer," Ms. Krainz said. "We're not just accepting an 'as is' renewal."

Gary Campanella, director of risk management at Amdahl, said the company has approached CIGNA about premium credits or a price break at the 1991 renewal for a favorable loss record or a profit-sharing arrangement if the account is a money maker for the Philadelphia-based insurer.

"We have talked to them about it as a concept but we have not worked out all the details," Mr. Campanella said.

Ms. Krainz said Amdahl also could use more earthquake coverage.

"We're looking for expanding capacity; whether or not that is feasible remains to be seen," she said.

'We are expecting a little more creativity on the side of the insurer,' Amdahl's Ms. Krainz says.

She adds that the company would prefer to remain with CIGNA rather than change insurers. "We're hoping to work with our carrier."

Ilona Melstrads, insurance manager at Frank E. Basil Inc. of Delaware, a Washington, D.C.-based defense contractor, said its insurer, Commonwealth Insurance Co. of Vancouver, British Columbia, will have to lower rates if it wants to retain the company's property account.

"I am hoping that we can still go with Commonwealth because we have been with them for several years and we have a very good manuscript policy," she said. "The only reason we are marketing (the account) is because (of) this very strange situation where our carrier is up for sale."

Commonwealth was placed on the block in February, along with affiliates Home Insurance Co. and U.S. International Reinsurance Co. AmBase Corp., the troubled parent of the three companies, said it would use proceeds from the sales to cover some of its $500 million in debt (*BI*, Feb. 26).

Despite rumors among industry analysts of a coming hard market, Ms. Melstrads said she thinks Frank E. Basil is in a position to ask for lower property rates from Commonwealth, which has written the coverage for five years.

"We have an outstanding record in terms of number of claims," she said.

"Our coverage is the broadest we can get," she added. "I was actually hoping for premium reductions."

Frank E. Basil's properties include a chemical waste processing plant in Boston, contracting offices in Maryland and Washington, D.C., and a horse farm in the suburbs of Washington.

"We'll see, perhaps we will get a better deal from other insurers," Ms. Melstrads said.

Robert J. Ryan, senior director of corporate insurance at AMAX Inc. in New York, said he anticipates no changes in rates or terms and conditions on the mining company's fire and boiler coverage renewing this month. The coverage is written by Industrial Risk Insurers and The Hartford Steam Boiler Inspection & Insurance Co.

"The market is still soft out there," and an upswing is not foreseeable, he said.

"I don't see it on the horizon for the moment. It's going to take some heavy losses to do that," Mr. Ryan said.

Despite interest in its account from Factory Mutual Insurance Co., AMAX will probably renew with its current insurers, Mr. Ryan said.

"We are a company that believes in long-term relationships with companies," he remarked. But, he added: "It doesn't mean that we will never change."

Thomas A. Lenton, director of risk management at Atochem North America Inc. in Philadelphia, said he does not believe there are price hikes in store for the chemical manufacturer's July property insurance renewals.

"Rates are flat or somewhat soft," he remarked. "I don't think the world has changed as far insurance being any harder to get."

Property prices are so soft, "I haven't even concentrated on" an account renewing Sept. 1, said Susan McCormick, treasurer for Scholastic Inc., a New York publisher of educational magazines. "I don't see any problems with it."

Although buyers say they have heard numerous reports of an impending hard market, they expect when that eventually occurs underwriters will not increase rates across the board or as drastically as they did during the last hard market.

"I don't believe rates are going to fall," but rate increases will be account-selective, said Ms. Krainz of Amdahl.

"I think its going to go to an account-by-account basis," compared to across-the-board low rates that mark current pricing, she predicts.

Should rates begin to rise, Amdahl may consider self-insuring some exposures. "We keep that in mind," Ms. Krainz said. "We are contemplating much higher deductibles, which is a kind of self-insurance."

Commercial property/casualty insurance rates could fall even lower in 1991 before an insurer breaks with the pack and increases rates in 1992, predicted Ms. Melstrads of Frank E. Basil.

Insurers "will compete as usual or follow the herd and some insurance company will be the herald of bad news in 1991 or 1992," she said.

"We expected (rates) to turn around, like many companies, for the past several years," said Mr. Meyer of Idaho Power. But now, "we don't look for major increases even in 1991," he said.

When prices do begin to rise, Mr. Meyer predicted, they will increase in increments of 5% to 10% a year.

"We don't expect the same major increases or decreases that we had seen in the mid-'60s or even the mid-'80s," he said. "I would think we're going to see gradual increases in the next three years."

"Companies are doing a little bit better job of underwriting individually than they had been," said Mr. Meyer, and rate increases will likely be considered on an account-by-account basis. ■

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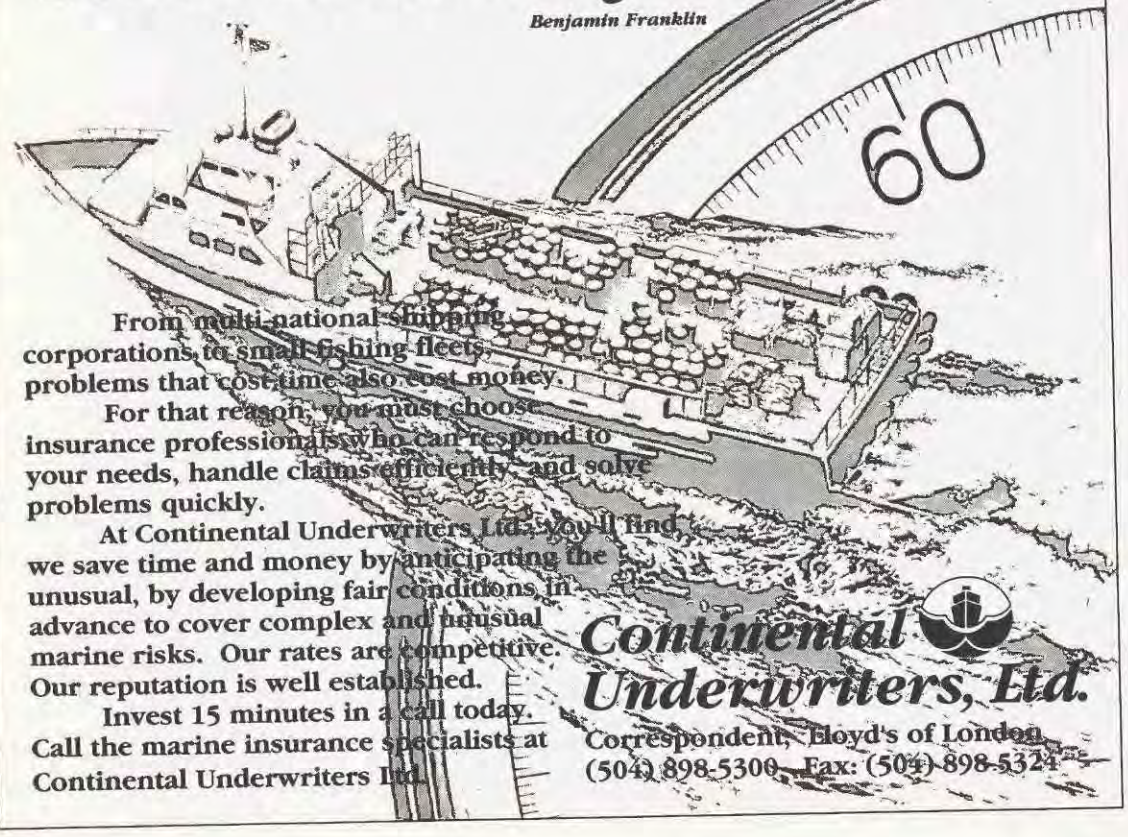
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Rate cuts scarce in London market

By STACY SHAPIRO and CAROLYN ALDRED

LONDON—Rate reductions are few and far between in the London market during July 1 renewals.

Rates are either bottoming out or are on the roller coaster back up in all areas of the market: property, casualty and marine insurance and reinsurance.

Major natural and energy-related disasters costing billions of dollars are being felt by London underwriters, forcing them to reconsider low prices for property and energy-related risks, observers say. Some brokers point out, though, that property rates for some policyholders are still declining slightly.

The March 26 shutdown of London's leading U.S. casualty underwriter, H.S. Weavers (Underwriting) Agencies Ltd., has left the market open for others to move into that role.

But any competition among underwriters is not showing up in rates: For casualty classes that Weavers has led in the past, rates are either holding steady or increasing.

Some casualty underwriters, however, delayed accepting excess liability policies last week while they tried to amend the wording of the Weavers 1985 claims-made policy form (see story, page 53).

"Clearly the market is beginning to bear the strains of the last few years" of losses, said John Lloyd, a director of Lloyd's of London brokerage Lloyd Thompson P.L.C. Particularly in the energy insurance and reinsurance sectors, "it's decidedly different to the market which existed three months ago."

"There are certain pressures in the market and underwriters are still trying to talk the market up," added Alan Hiscock, deputy chairman of Lloyd's broker Sedgwick Energy Ltd., a subsidiary of Sedgwick Group P.L.C. "Whether it's working or not is another matter. Rates are stable, although you can still do some silly things. Generally speaking, though, the market is stable."

A Lloyd's property reinsurance underwriter adds that the increases are greater for July 1 renewals than April 1 renewals. The European windstorms in January and February—which will cost European underwriters billions of dollars—"are only just being felt," he said.

And those losses come on top of other major natural disasters—like Hurricane Hugo and the California earthquake—"which have blown the hell out of the catastrophe (reinsurance) market," he said.

Mid-year renewal season in London is a mixed bag of renewals from the North American and Australian property/casualty markets, covering anything from insurance for major U.S. energy-related companies and hospitals to property catastrophe treaty reinsurance (see story, page 55).

Many brokers and underwriters said that in the last few weeks the market generally has been "very" quiet for property insurance and reinsurance renewals. However, Weavers' demise has added a lot of work for North American casualty brokers in London, who must deal with alternative markets in London and foreign competitors looking to write Weavers business.

"A few years ago I thought I was clever when I got clients to move away from Jan. 1 to April 1 and July 1 renewals," summed up John Holford, deputy chairman of Sedgwick Non-Marine Insurance Ltd., which has one of the largest North American casualty books of business in London. "Now, I don't know why I did that. July 1 is now the busiest season with April 1 next. Renewals, plus remarketing of Weavers (business), is making it worse. Now we are exceptionally busy."

1990 MIDYEAR RENEWALS

Amid the confusion in the wake of Weavers' troubles, most casualty underwriters "are increasing their rates, but not scandalously," said Dick Drain, chairman of the North American division of Lloyd Thompson. New players are "not unreasonably" pricing Weavers' accounts that expired on July 1, he said.

Casualty insurance "prices certainly are not reducing," adds Keith Peacock, general manager of Lexington Insurance Co. Ltd. "We have followed a policy since October last year to hold rates and increase them where necessary.

"But you can't compare this renewal season with any other because the market's changed so much. The bit players when Weavers was around are now the major players," said Mr. Peacock. "It won't be an easy time."

In particular, Lexington is renewing the medical malpractice insurance of about 40 U.S. hospitals, noted Mr. Peacock. "July 1 is the biggest date of the year for" hospital professional liability renewals, he said.

Other observers say that, with Weavers out of the picture, rates are increasing 25% to 100% on such coverage. About $20 million of hospital malpractice capacity currently is available in London, they add.

"You can get the same limits as before" for most casualty coverages, pointed out Sedgwick's Mr. Holford.

"New markets are taking up the slack" left by Weavers, said Mr. Drain. London underwriters' prices are competitive with those of U.S. insurers vying for the Weavers business, he adds.

"We're relieved and impressed with the new capacity and the underwriters who have come in," he said.

Brokers had feared that U.S. policyholders that purchased coverage from Weavers would generally lose confidence in the London market.

According to Mr. Drain, that hasn't happened. "It's interesting. July 1 is setting a benchmark for London. If we can get through this, then maybe London's reputation is intact."

Lloyd's non-marine underwriter John Fenn, who writes for syndicates managed by Merrett Underwriting Agency Management Ltd., says, "I'm picking up a little new business in all (casualty) areas. I'm seeing a lot more new business this year than last year. . . .I'm sure the reason we're seeing more business this year compared to last year is because of Weavers."

He notes that many U.S. buyers are scouring the world, looking to place their casualty programs. "I've seen some people I haven't seen for years" who have come to London this renewal season, he said. Other brokers and underwriters concur.

Many U.S. risk managers are visiting London personally this year to negotiate the placement of coverage formerly written by Weavers.

Among the softest of the London markets right now is the North American property insurance market, where competition still reigns and some brokers say rate reductions can sometimes be found. But other brokers say that property rates are gen-

Continued on next page



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London market

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erally flat and are not dropping to any significant extent.

"There is still a load of capacity out there and underwriters want to keep their market share," said one North American property brokerage executive. "For U.S. property, you are still seeing some rate reductions, but they are exceptions to the rule. Those prices that are going up, though, are those which have horrendous loss experiences.

"But it will be interesting in the next six months, because if (rates) aren't increasing now, I don't know when they will," he said.

For U.S. property insurance, the "market is still flat," adds a leading Lloyd's property insurance underwriter. "Everyone has decided that personal lines are too political to underwrite, so they are heading toward property to underwrite, making it competitive."

However, a string of disasters—beginning with Hurricane Hugo hitting the Caribbean last October—is pummelling property insurers' results and forcing catastrophe property reinsurance rates to start rising and retrocessional capacity to disappear.

The losses include the European storms in January and February, which the Assn. of British Insurers recently said cost its 450 members 2 billion pounds ($3.5 billion) in insured losses.

"The world catastrophe (reinsurance) market has taken in $1.5 billion to $2 billion in premiums in the past year, and in nine months has been hit with between $8 billion and $10 billion in losses," said the Lloyd's property insurance underwriter. "We don't even get excited about a loss under $1 billion anymore."

As a result, during April 1 and July 1 renewals, when about 40% of all U.S. ceding companies renewed their property catastrophe reinsurance programs, prices on average rose 26% from a year earlier, said the underwriter, who analyzed ceding companies' renewals.

"The increase in rates was bigger on July 1 than on April 1," he added, because "the neuroses from these losses has increased. You have the January/February storm losses only just being felt. Then there's Hugo, the San Francisco earthquake, the Australian earthquake and five other major catastrophe losses. It's blown the hell out of the catastrophe market."

Meanwhile, the London market excess-of-loss reinsurance market is "in bad shape," he added, forcing London reinsurers of U.S. cedants to retain more of the risk rather than retrocede it to LMX underwriters.

"A lot of the market has stopped writing excess-of-loss" retrocessional coverage, said a Lloyd's members' agent who analyzes syndicates. "It's always quiet at this time anyway" because Jan. 1 is the main LMX renewal date. "But it's virtually a dead market now," he said.

Many Lloyd's non-marine excess-of-loss retrocessional underwriters have stopped underwriting because they do not want to exceed their premium limits. Rates have tripled and quadrupled for non-marine excess-of-loss retrocessions, which has forced some underwriters to stop writing, the members' agent said.

In addition, excess-of-loss reinsurance underwriters took on additional premium earlier in the year because some clients expected the lack of capacity at mid-year and moved their renewals to April from July.

For example, non-marine excess-of-loss reinsurance syndicate 847, managed by Feltrim Underwriting Agencies Ltd., stopped underwriting in mid-June because the syndicate exceeded its premium income capacity of 21.8 million pounds ($37.9 million) by 1.8 million pounds ($3.1 million).

"This arose mainly because of an acute hardening of the non-marine excess-of-loss market, causing already committed lines to be closed at substantially higher premiums," said the syndicate's underwriter K.R. Gofton-Salmond in a letter to members' agents. "Despite a policy of reducing lines on renewal business to match reduced stamp capacity and assumed rate increases, renewals produced greatly increased income.

"Another effect of the hardening market has been to bring forward in time renewals that would have been transacted later in the year," he pointed out.

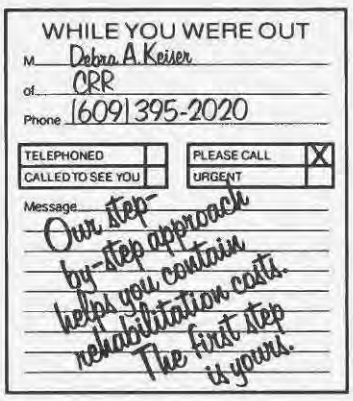
Because the property catastrophe excess-of-loss retrocessional market remains in a sickly state, London sources believe capacity will shrink in the next six months, forcing property reinsurance rates even higher.

"I sense a certain frustration," said Barry West, head of the London market division of Commercial Union Assurance Co. P.L.C. "For the first time in a long period business is available at rates which look reason-

Continued on next page

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Weavers absence evident in rates, terms

By STACY SHAPIRO

LONDON—Underwriters in London are not completely filling the void left by the shutdown of the market's largest U.S. casualty underwriter.

They can fill the capacity lost when H.S. Weavers (Underwriting) Agencies Ltd. stopped underwriting in March, but underwriters do not always offer coverage at similar rates and with similar policy wordings.

The demise of the Weavers line slip has forced brokers to find alternative markets for general liability, hospital medical malpractice, professional liability and directors and officers liability insurance programs that Weavers participated in or led.

"New markets are taking up the slack," said Dick Drain, chairman of the North American division of London brokerage Lloyd Thompson Ltd.

With U.S. insurers vying for Weavers' business, pricing is competitive, he adds. "We're relieved and impressed with the new capacity and the underwriters who have come in."

For example, London underwriters are willing to write coverage for U.S. policyholders trying to replace excess liability policies formerly written by Weavers.

Mr. Drain says U.S. buyers can find about $35 million to $40 million in excess liability coverage in London. That's an increase of about $5 million to $10 million from midyear 1989.

Many brokers hope Zurich Re U.K. Ltd. will replace Weavers as the leader for U.S. excess liability coverage.

The company now offers $10 million of excess liability limits for U.S. policyholders, confirmed Chris Horton, casualty underwriter for the Zurich Insurance Co. unit.

Zurich Re, which changed its name on Jan. 1 from Turegum Insurance Co., was one of the underwriters participating in a $15 million excess of $5 million layer written on the Weavers claims-made liability form. The first $5 million was written by Weavers.

Now Zurich Re will write up to 60% of the first $10 million excess liability layer and up to 40% of the next $10 million excess of $10 million, said Mr. Horton.

However, the company insists on amending Weavers' excess liability claims-made policy wording, he says.

Several drafts were completed over the last few months, but the final copy of the amendments was to be released last week, only six days before the July 1 renewal date.

According to Mr. Horton, amendments are designed to make policy wording "more clear."

Brokers who have worked with Zurich Re are worried that the company will include exclusions not found in the Weavers claims-made form.

"It's not finalized, so I can't comment on what it says," says Mr. Horton.

Even with the policy form changes, "London's showing that despite Weavers, London is writing accounts and is still very much a market and is perhaps getting a better reputation" he says.

But before excess liability layers can be completed with the new Zurich Re wording, other London underwriters must agree to the changes in policy wording. So far, this has been a stumbling block, according to one London broker who asked not to be identified.

At least one London insurer—Lexington Insurance Co., which writes up to $15 million in excess liability coverage—does not support the earlier drafts of the Zurich Re wording.

"At the moment we are not supporting it because it's not finished. But we are not sure that it is acceptable to the market," says Keith Peacock, Lexington's general manager.

Instead, the American International Group Inc. unit is willing to write July 1 renewals on the 1985 Weavers claims-made wording, while it revises the wording "to make enhancements," said Mr. Peacock. Lexington's revisions "will only improve the language" and not change the intent of Weavers' coverage, he said.

"We need a form in London" that's attractive to buyers and still "makes sense to us," said Mr. Peacock, noting that Lloyd's also came out with a claims-made policy wording that "was a great form" for the underwriters, but not attractive to buyers.

Meanwhile, "brokers are trying to persuade underwriters that we don't need major wording modifications," said John Holford, managing director of Sedgwick Non-Marine Ltd., who has worked with Zurich Re on policy wording designed to offer broad coverage.

A "few modifications" became necessary and Zurich Re decided to make them, though the company is "leaving the whole thing (until) too late," he said.

Mr. Holford is urging London underwriters to support one version of the modifications to the Weavers form—no matter who makes the changes.

If a "dominant force" does not lead in U.S. excess liability, Mr. Holford said, the market will revert to disarray as it did when the Lloyd's and Weavers' claims-made wordings were introduced in 1985.

Policyholders now widely accept the Weavers form, "so modifications must come from one dominant force and that force at the moment is Zurich Re," said Mr. Holford.

Mr. Drain of Lloyd Thompson says he is more optimistic. "I can assure you that there will be $20 million on a form" for midyear renewals, whichever policy wording is used, he said. "Lexington has $15 million and another $5 million can be found. Zurich has $10 million" and another $10 million could be found to follow Zurich.

Also, Lloyd's underwriter Stephen Merrett is leading a $20 million excess of $5 million line slip organized by broker C.T. Bowring & Co. Ltd. That slip—whose underwriters use the policy form now used by X.L. Insurance Co. in Bermuda—is only 60% to 70% completed, said a broker.

"Everybody's skeptical and there are a lot of people who agree that we don't need a new form at this stage," said Mr. Drain. "But it's not a bad thing. . . .Brokers want one uniform policy and eventually that will come. But it's a bloody good market at the moment. There are more positives than negatives, more opportunities and innovative underwriters." ■

London market

Continued from previous page

able but there is frustration because reinsurers can't take full advantage of the higher rates" because retrocessional capacity is limited.

"The more interesting scenario will be what happens at the end of the year. One can only test the retro capacity when you go and buy it. There will be severe limitation in market capacity (but) I doubt whether it will filter down to the policyholders in the short term," said Mr. West.

However, the Assn. of British Insurance predicts that domestic personal property insurance rates could increase 17% following the European windstorms. Projections have not been made for the commercial property insurance market, though an ABI spokesman says the group may predict increases.

Meanwhile the 1988 Piper Alpha North Sea oil platform loss, which cost insurers about $1.4 billion, is finally affecting energy-related insurance programs, brokers contend.

Several insurance and reinsurance companies—like The Mercantile & General Reinsurance Co. Ltd. and several Lloyd's syndicates—report severe losses from Piper Alpha well before they are to close their 1988 accounts under three-year accounting (*BI*, May 28).

A London energy broker says Piper Alpha losses are forcing "big rig excess-of-loss reinsurance rises of up to 100%."

For policyholders, the result is rate hikes up to 25%. "It's taken two years since Piper Alpha for rate increases to filter down to the direct (insurance) market, and it will get tougher as the year goes on," says the energy broker.

Also, the London market recently paid its portion of the $400 million claim for the cleanup of the Exxon Valdez oil spill. The London market wrote reinsurance for the protection and indemnity club that insured Exxon Corp. above the club's $12 million retention.

"The big, high-profile oil companies are unlikely to be able to renew at the same or reduced rates," added Mr. Lloyd of Lloyd Thompson. Those that have no losses "are most likely to renew at increases of about 10%," he says.

Meanwhile, London's master energy line slip renewed last week. Details were not immediately available, though Mr. Hiscock of Sedgwick said he believed that the limits for physical damage coverage had been reduced to $650 million from $750 million.

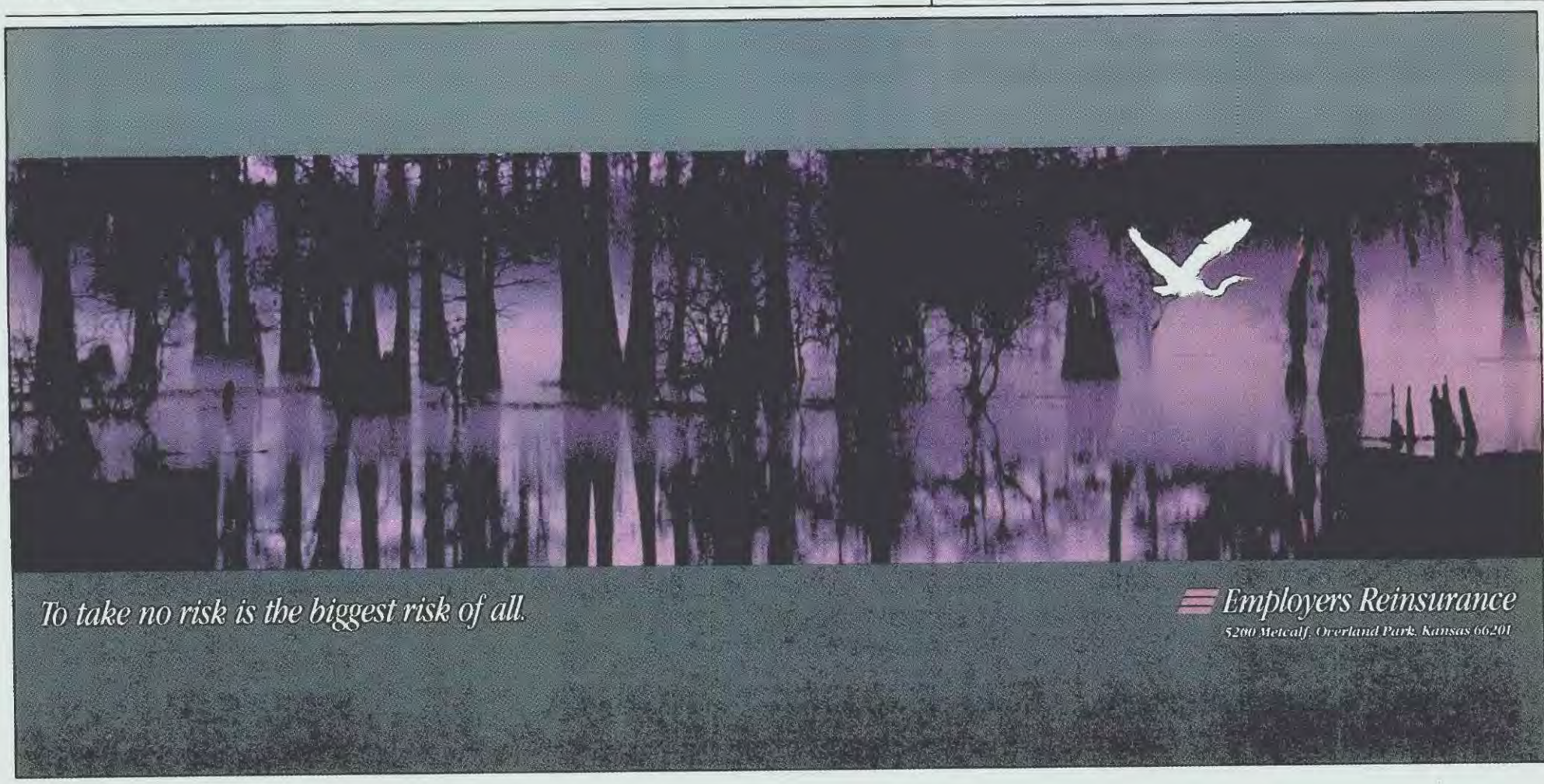
Another broker said the slip was "very difficult to finish as (reinsurance) capacity has reduced." He said about 60% to 80% of the slip was renewed before it became difficult to place the remaining amount.

Rates may rise for insurance programs at one or two energy companies, but "it's nothing of significance," says Mr. Hiscock. "The direct (insurance) market is certainly not soft, but there are only minor increases. It's bottomed out." ■

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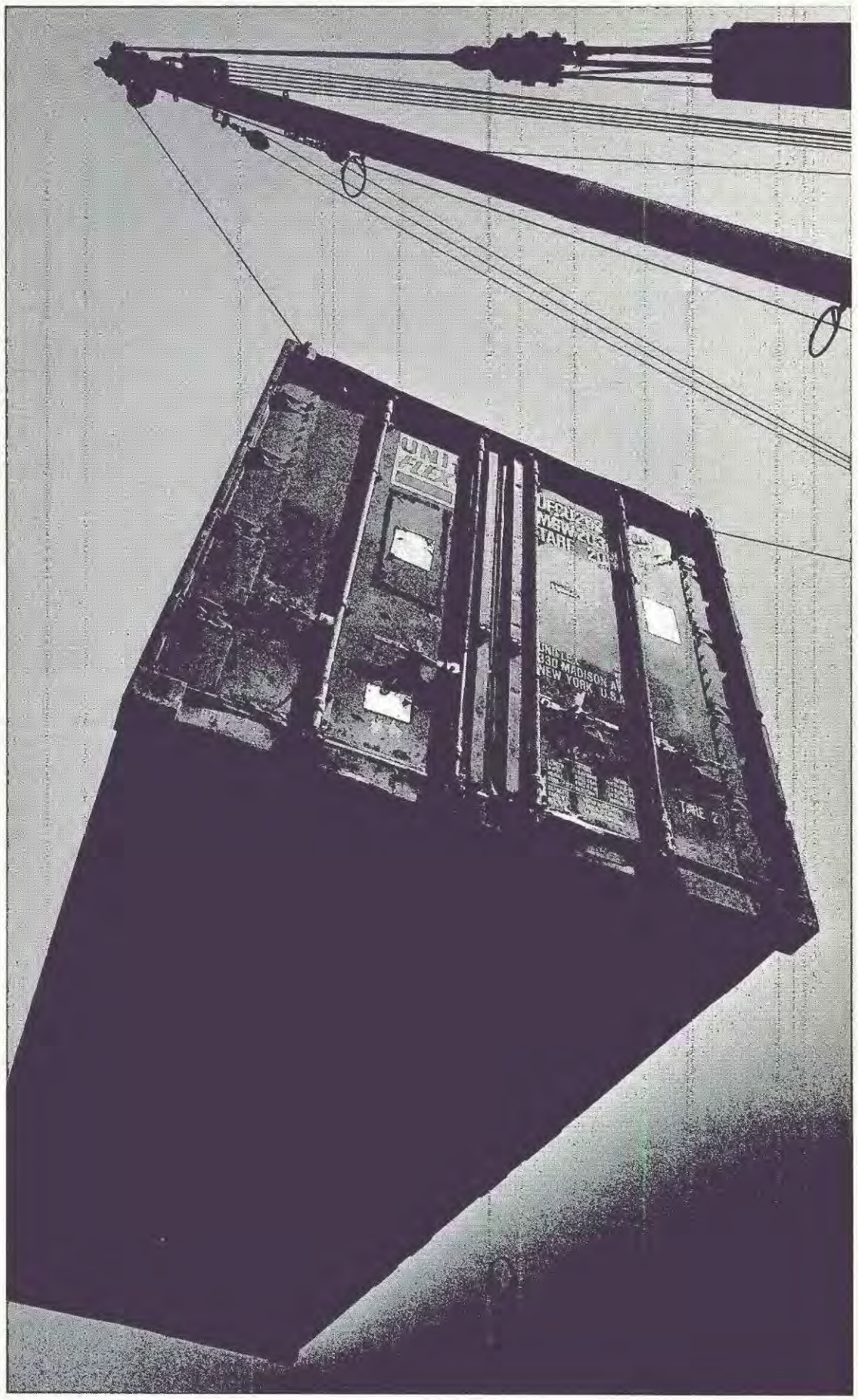
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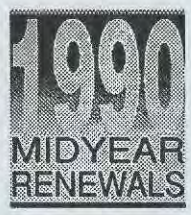
By KATE McILWAINE

SYDNEY, Australia—Australian ceding companies—many of whom renew their reinsurance programs on June 30—are paying 25% to 250% more for their property catastrophe reinsurance programs this year than last year because of billions of dollars in natural disaster losses worldwide.

However, the ceding companies' extra reinsurance costs are not being passed on to the policyholders in a dramatic way, brokers and underwriters say.

While some say that Australian insurers are charging slightly more this year for property coverage, others say that property and casualty insurance rates continue to fall.

"People like to tell me there is a hardening (in the Australian insurance market), but I have not seen it," said Ray Ellis, general manager of Sydney-based FAI Insurance Group, Australia's second largest insurer.



Auto rates may be up around 10% from last year, but other classes of insurance, including property, are static, he said.

"Liability lines are under a lot of pressure," he said. "The market can't continue to tolerate the depressed level of rates. We're not out there chasing every scrap of business. . .but there are still a lot of voracious underwriters who are cutting the guts out."

Although there has been talk of a hardening in the insurance market, it is not yet evident, added Ray Kent, chief manager-insurance of Brisbane-based Suncorp Insurance & Finance Ltd.

"Some underwriters' actions must be questioned," Mr. Kent said. In light of the huge losses over the past year, "I don't know how those companies can balance the books," he said.

June 30 is the end of the fiscal year for most Australian companies, and as a result has become the major insurance and reinsurance renewal date of the year.

Many of the Australian ceding companies—as American cedants for July 1 and Japanese ceding companies for April 1—traveled to London over the past few months to renew their catastrophe property reinsurance programs (*BI*, March 26).

Negotiations in London were tough, however, following the December earthquake in Newcastle, New South Wales, and the Sydney hailstorm earlier this year, which together cost more than $1 billion Australian ($786 million) in insured losses.

London underwriters told Australian ceding companies that they were charging more for property catastrophe reinsurance in light of those losses and the other natural disasters in the past year, such as the $4 billion Hurricane Hugo, the $1 billion San Francisco earthquake and the $8.8 billion string of European storms this winter.

As a result, rates for Australian property catastrophe reinsurance are about 20% higher than last year, according to a Lloyd's of London property underwriter.

But because the Australian ceding companies were charging 5% to 10% more for catastrophe insurance policies and some reinsurers take a percentage of the original premium, the London underwriters were receiving 25% to 30% more in premiums overall, the underwriter said.

Meanwhile, the Sydney-based Government Insurance Office of New South Wales, which has just renegotiated its reinsurance program, paid 200% to 250% more for some catastrophe reinsurance pro-

Continued on next page

Quebec mulls more foreign investment

By MICHAEL SCHACHNER

MONTREAL—Insurers chartered by Quebec may soon have greater access to foreign capital under a proposal to increase the maximum allowable foreign stake in those companies, says the senior counsel for a Canadian insurer trade group.

The Quebec government is expected to introduce a bill in September that would boost to 30% from 10% the basic limit on foreign investment in Quebec-based insurers chartered in the province. Foreign ownership of federally chartered companies is not restricted.

Foreign companies or individuals would also be allowed to control up to 50% of a Quebec-chartered insurer by obtaining approval from the province's minister of financial institutions. Currently, special permission is required for foreign investors to own as much as 25% of such an insurer.

The rules are designed to improve provincial insurers' access to much-needed foreign, primarily European, capital, according to Helene Gagne, senior counsel for the Insurance Bureau of Canada in Toronto, a national insurer trade association.

Under the proposal, foreign investors would also be allowed to establish new insurance companies chartered in Quebec.

"Quebec earns our support for getting on with this," said Alex Kennedy, vp and general counsel for the bureau. "Companies throughout Quebec have been looking for increased foreign ownership since the 1930s."

Noting the lack of restrictions on foreign ownership in federally chartered companies, Mr. Kennedy said more than 75% of the Canadian insurance industry is now controlled by foreigners.

While the legislation seeks to relax foreign ownership regulations for insurers chartered in Quebec, it also seeks to clamp down on the level at which Quebec's insurers can diversify into insurance-related and other fields. Regulators want to prevent insurers from spreading themselves too thin, explained Ms. Gagne.

Under the proposed rules, a company would not be permitted to allocate more than 25% of corporate assets to fields unrelated to insurance while up to 50% of assets could be allocated to related fields.

"The authorities don't want insurers to drain themselves dry," Ms. Gagne said. "In the past, some insurers have spread their eggs too thin." ■

Store sues broker for flood loss

By KATE McILWAINE

SYDNEY, Australia—The owner of a New South Wales supermarket damaged in Australia's recent devastating outback floods is suing his broker after an insurer denied liability for his claim.

Supermarket owner Jim Watson, managing director of the Sydney-based company Northern, Western & Southern Supermarkets Pty. Ltd., is suing Sydney-based broker Lowndes Lambert (Australia) Ltd., a unit of Lowndes Lambert Group P.L.C., for unspecified damages. Watson accuses the broker of breach of contract and negligence for "failing to negotiate the appropriate contracts of insurance and incorrectly advising (Watson) of the terms of such policies," court papers show.

Mr. Watson's lawyers assessed his loss at $750,000 Australian ($589,500) when court papers were filed June 8, but they noted business interruption costs were escalating. Mr. Watson says the loss is likely to reach more than $1.2 million Australian ($943,200).

The supermarket and an associated butchery are insured for a total of $2.82 million Australian ($2.2 million).

A preliminary hearing was scheduled last Friday in the Commercial Causes Court of the Supreme Court of New South Wales. At issue is whether flood cover was included in the policy for the supermarket.

The policy—a product covering supermarkets known as a "Supa Saver Insurance Package"—was designed and underwritten by the large Sydney-based insurer A.M.P. Fire & General Insurance Co. Ltd., a wholly owned subsidiary of the Australian Mutual Provident Society.

The outback town of Nyngan, on the Bogan River and about 370 miles northwest of Sydney, was inundated by floodwaters after heavy rains in May. The town was evacuated for more than a week.

Mr. Watson was one of the few people in Nyngan who had sought flood insurance.

Few Australian businesses insure against flood damage because the premiums are high and the coverage is unobtainable in some flood-prone areas. While recent floods in the states of New South Wales and Queensland caused widespread damage, industry analysts estimate less than 1% of Australian businesses or households have flood insurance.

After the Nyngan flood, Mr. Watson set up shop temporarily in a service station because the supermarket premises were damaged. He estimates it will be several months before the owner of the supermarket premises, which he leases, will have completed repairs.

Mr. Watson contacted his broker, seeking a $100,000 Australian ($78,600) progress payment from the insurer, and was told that, according to the underwriter, there was no flood cover in place.

However, Mr. Watson believed he had arranged flood coverage through his broker.

Mr. Watson says he first obtained flood coverage for two supermarkets in other towns in March 1988, and approached his broker for an extension of the policy, on the same conditions, when he bought the Nyngan Payless supermarket in November 1988. His broker at the time was Sydney-based Bain Clarkson Pty. Ltd., which was taken over by Lowndes Lambert in late 1989.

"I requested the same cover I had sought for my other supermarkets and, to my knowledge, it was granted," Mr. Watson said. "I had not been required to pay extra premium for flood cover for my other supermarkets, and I understood the cover was provided for the Nyngan supermarket on the same basis."

When renewing his policies in December 1989, Mr. Watson received a letter from a Bain Clarkson senior account executive confirming flood coverage was provided for the three supermarkets and associated butcheries.

But Ron S. Peden, manager of commercial insurance operations for A.M.P. Fire & General Insurance, says A.M.P. records do not indicate any flood coverage for the Nyngan supermarket, although the other two stores are covered. "We feel quite positive that we have reasonable grounds for denying the claim," he said.

"There is a difference of opinion between the broker and the underwriter," Mr. Peden said. "The fact is that insurance companies often receive claims for contingencies which are not covered under the policy."

Rick L. Tween, managing director of Lowndes Lambert Australia, said he could not comment because of the litigation.

But in a May 24 letter to the underwriter obtained by *Business Insurance*, Mr. Tween said because A.M.P. had not declined flood

Continued on page 58

Insurers setting sights on Spain

By MARIA KIELMAS

Spanish insurance companies are being targeted by French and Italian insurers for acquisitions and expansion.

Interest in the Spanish market had been eclipsed in recent months by companies' preoccupation with developments in Eastern Europe, according to Spanish insurance industry sources.

However, two French insurers and an Italian insurance company say they are optimistic about prospects for growth in Spain, following recent acquisitions there.

France's largest insurer, the state-controlled L'Union des Assurance de Paris, has signed a cooperative agreement with Banco Central, a Madrid-based financial services and insurance company.

The three-year accord stipulates that UAP's Spanish affiliate, UAP Iberica S.A., and Banco Central's insurance subsidiary, Vasco Navarra Compania de Seguros S.A., together will develop new marketing and underwriting techniques for corporate and industrial risks.

"The accord is not limited to Spain. Cooperation between the two groups could include all E.C. countries as well as other foreign markets which the two groups regard as interesting," said a statement from the two companies.

Spain is a member of the European Community, which is due to remove trade barriers in 1992. As of this week, cross-border placement of large commercial risks is allowed within the European Community.

As part of the deal, UAP will acquire a 25% equity stake in Vasco Navarra, while Banco Central will gain a 25% stake in UAP Iberica. UAP also will acquire 3 million shares in Banco Central, representing a 3% stake in the firm.

Another state-controlled French insurer, Groupe des Assurance Nationales of Paris, has acquired a 98% stake in Spanish insurer Alianza de Seguros S.A. The remaining 2% of Alianza is held by its employees, a GAN spokeswoman said.

GAN paid about 300 million francs ($53.7 million) for the medium-sized Spanish insurer, she said.

"Our policy is one of prudent foreign investment," the spokeswoman said. "We are interested in acquiring only small to medium-sized companies."

GAN believes Spain holds "an enormous potential for growth," she added, noting that GAN already has a Spanish subsidiary, GAN Espana S.A.

As part of a recent issue of GAN stock by the French government, which reduced the government's stake in the insurer to 65% from 94%, GAN now has 2.6 billion francs ($465.4 million) with which to make other foreign investments, the spokeswoman noted.

GLOBAL BRIEFS

And, Italy's third-largest insurer, Societa Assicuratrice Industriale SpA, has acquired a 10% stake in a small Spanish insurer, Kairos Compania de Seguros y Reaseguros S.A., which was formed only last year.

Turin, Italy-based SAI bought 6% of the insurer from various shareholders and 4% from U.K. insurer Friends Provident Life Office, which now holds a 26% stake in the Spanish company.

The deal was initiated when Friends Provident in May bought a 1.8% stake in SAI and a 4.6% stake in SAI's parent company.

AXA forms Asian unit

PARIS—AXA Midi Assurances S.A. has formed a reinsurance unit to tap markets throughout Asia.

AXA Re Asia, which will be based in Singapore, is to be capitalized at $27 million.

It will be managed by experienced local managers, said Claude Bebear, chairman and chief execu-

Continued on page 58

Aussie renewals

Continued from previous page

tections, said Don Crisp, assistant managing director for general insurance at the GIO.

Some underwriters believed rates had increased 50% to 100% this renewal season.

Other Australian ceding companies would not quantify how much more they're paying this year than last year, but most agreed that the minimum increase in premiums was around 25%.

Ian E. Meek, underwriting manager and deputy chief executive for AMP Fire & General Insurance Co. Ltd., a subsidiary of Sydney-based Australian Mutual Provident Society, confirmed that the London reinsurance market was hardening and all companies, including AMP, were paying more.

Philip Clairs, managing director of the Melbourne-based Commercial Union Assurance Co. of Australia Ltd., a subsidiary of the British insurer National Commercial Union Ltd., said reinsurance rates were up 25%.

Suncorp's Mr. Kent agreed that property catastrophe reinsurance had hardened "very much," but that had not yet affected insurance rates.

GIO's Mr. Crisp noted that not all ceding companies have had to "bite the bullet" yet, but other companies could expect to see big increases soon. "It just depends when your (renewals) fall due."

Hans A.J. Sprangers, managing director of Lumley General Insurance Ltd. in Sydney, a wholly-owned subsidiary of the London-based Lumley Corp. Ltd., said catastrophe reinsurance rates had gone up 25%, while other lines of business remained steady.

Some Australian ceding companies that renewed earlier in the year found the catastrophe reinsurance rate increases were not as big as they were at June 30 renewals.

Terry R. Herbert, general manager of Melbourne-based GRE Insurance Ltd., a unit of the London-based Guardian Royal Exchange Assurance P.L.C., said his company renegotiated reinsurance rates in December and that they were steady compared with the present situation. But he said increases were now inevitable on the excess reinsurance layers.

'There are still stories about huge plunges, but there are less of them,' says Mr. Herbert.

Mr. Ellis of FAI Insurance Group said his company's reinsurance rates were negotiated in March with "no discernible increase."

However, competition in the Australian insurance market is still intense despite the increase in property reinsurance costs, brokers and underwriters say, particularly for the placement of large corporate insurance programs.

But brokers also say that not as much business has switched from one broker or underwriter to another during this current renewal season compared with last year at this time.

"It's been fairly quiet," one broker said.

Mr. Sprangers of Lumley noted that undercutting has continued in the marketplace.

For example, one company was quoted a premium of $750,000 Australian ($589,500) for auto insurance for its corporate fleet even though its claims totaled $1.5 million Australian ($1.2 million) last year, said Mr. Sprangers.

"Rates have been slashed in liability areas," he added.

AMP's Mr. Meek said that although the domestic market should harden in light of the disasters, the impact of the reinsurance increases may not be immediate. "The next renewal season will be a lot harder," Mr. Meek predicted. "Those placing reinsurance next December will find things a lot harder."

Mr. Meek added that AMP would increase its property rates in the future.

Chris L. Meller, managing director of CIGNA Insurance Australia Ltd. in Sydney, a unit of the Philadelphia-based CIGNA Corp., said property rates were "relatively flat," but liability rates had dropped substantially. He said some underwriters were quoting "suicidal" rates on the casualty side, with 15% to 20% drops common.

However, CIGNA has "walked away" from some accounts rather than compete with the "unbelievable prices," said Mr. Meller.

"December is going to be the testing time once the underwriters' results come through," he said, noting that Australian insurers are only now closing their annual accounts for the fiscal year, and may report big underwriting losses before the end of the year.

Paul Venning, assistant managing director for Sydney-based broker Alexander Stenhouse Ltd., a unit of Alexander & Alexander Inc., said that the insurance market was still soft, but some companies had decided to set rates at a minimum level and not to go below that.

Despite rising catastrophe reinsurance costs, very competitive bidding continues for insurance business, said Mr. Venning. Rate cuts can be around 15% to 20% for property insurance, although the reductions are not as common as they were last year, he added.

Many rates have stayed the same, "but there are still companies prepared to do anything to increase their market share," he said.

However, big annual underwriting losses among Australian insurers for the year ending June 30 may force insurers to increase their rates later in the year, he noted. "That's when they (the insurers) will toughen up on underwriting practices," said Mr. Venning.

Meanwhile, GIO has increased its insurance rates "slightly," said Mr. Crisp. Auto rates have increased 7% to 8% with home and other domestic insurance lines rising about 10%, he said. GIO is mainly a personal lines insurer.

"We have seen a significant hike in our costs for the domestic and auto lines," said Mr. Crisp.

But, Mr. Crisp said it would be simplistic to attribute the rate increases to reinsurance costs alone. "We have had an increase in the incidence and cost of motor claims," he said. "Some areas are moving because we have reassessed the risk."

GRE's Mr. Herbert added that underwriters were considering rate increases, but there were no strong signs of a firming of the market. "But everyone holds their cards fairly close," he said, alluding to underwriters being cautious about revealing their rates.

Property rates could go up in the future, but liability insurers are offering broader policy wordings for less premium, said Mr. Herbert. "There are still stories about huge plunges, but there are less of them," he said.

•

International Editor Stacy Shapiro contributed to this story.

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INTERNATIONAL

London market pays balance of Valdez claim

By CAROLYN ALDRED and STACY SHAPIRO

LONDON—The London market paid one of its largest claims last Friday when it handed over $344.5 million to pay for cleaning up the pollution caused by the oil spilled by the tanker Exxon Valdez in Alaska's Prince William Sound.

The Institute of London Underwriters announced last week that the reinsurance payment was being handed over to Thomas R. Miller & Son (Reinsurance Brokers) Ltd., which placed the reinsurance for the protection and indemnity club in Bermuda that insured Exxon Corp. for $400 million for pollution cleanup costs (*BI*, April 3, 1989).

Of this sum, the ILU members paid $73.4 million, or 21.3%, of the total, the association said.

The London market reinsured the P&I club excess of $12 million.

The first $43.5 million of Exxon's $400 million in coverage was paid by the market last year, according to Derek Wills, chairman of the Lloyd's Underwriters' Assn.

Exxon's cleanup costs exceeded $1 billion.

"Behind the scenes, the payout represents use of the latest technology available to the London market to ensure the speedy distribution of information and settlement of claims, no matter how large," the ILU said.

Details of the Exxon Valdez loss have been maintained on the ILU's new computer system, which connects all ILU companies and brokers via the London Insurance Market Network.

As soon as the leading underwriter agreed to pay the claim, the details of the claim were electronically available to all ILU companies and brokers involved in the loss.

Authority to settle the claims was given by the ILU leading company using a computer terminal in its claims office connected to the ILU's claims management system, the group said.

"London is making rapid strides towards its aim of being the world's first truly electronic insurance marketplace and the ILU is in the forefront of this development," said Peter Worsfold, the ILU's general manager.

"Pollution cleanup resulting from the Exxon Valdez disaster and agreement of the claim was finalized only recently. Without the new computer technology, settlement of a claim of this size and complexity, with the many interests involved, would have taken much longer to process," he said.

British, German venture

British insurance company Sovereign Insurance (U.K.) Ltd. has joined forces with West German insurer Hanse-Merkur Krankenversicherung A.G. to launch a corporate medical insurance policy for U.K. companies.

Sovereign is a subsidiary of London-based Sovereign Marine & General Insurance Co. Ltd., which is owned by London broker Willis Faber P.L.C. Sovereign writes London market business as well as property/casualty insurance for U.K. corporate clients.

Hanse, based in Hamburg, West Germany, specializes in writing private medical insurance in West Germany.

Hanse and Sovereign agreed on a joint venture because Hanse was looking to expand beyond its domestic market and Sovereign had identified medical insurance as a growth market in the United Kingdom, said Michael Dane, managing director of Willis Faber (Underwriting Management) Ltd.

The Sovereign-Hanse Company Health Insurance Plan provides medical insurance for British company employees throughout the European Community.

The plan is aimed at companies with between three and 500 employees. However, Sovereign believes its "target area" lies with companies with just three to 50 employees.

Although the United Kingdom has the extensive state-funded National Health Service, private medical insurance is increasingly being offered by companies to their employees as a company-sponsored benefit. However, small companies so far have not been targeted by the major medical insurers, pointed out Jim Niven, Sovereign Insurance's production manager.

LONDON

Lloyd's warning

Lloyd's of London is losing some of its unique advantages over its insurance company competitors, warns a senior—and retiring—Lloyd's underwriter.

"More and more underwriting in Lloyd's is becoming like that in many insurance companies, stereotyped and unimaginative," said Robin A.G. Jackson, in Merrett Underwriting Agency Management Ltd.'s annual syndicate results.

In his 12th and last annual report for syndicate 799, Mr. Jackson, who retires this year, makes several personal comments on Lloyd's.

"One cannot get away from the fact that it is becoming more and more difficult in Lloyd's to underwrite on an 'opportunistic' basis, which has always been the secret of Lloyd's," he says.

"Any underwriter who wishes to underwrite something original and take a risk is going to find it more difficult to justify in the future," he explained.

"It seems to me that, as every day goes by, the advantages that Lloyd's underwriters have over company underwriters are rapidly diminishing. We cannot even today say that we have an advantage with expenses," he adds.

"Those of us who have been at the sharp end of the business in the last decade dealing with the original insureds, from both an underwriting and claims standpoint, find it increasingly difficult to defend the way the market operates," Mr. Jackson says.

Moreover, "it seems a pity to me that so many of the people who are supposed to be making decisions for the future of Lloyd's have had so little experience in dealing with the actual customer. Almost all members of the Committee of Lloyd's have spent their entire working lives in Lloyd's, a highly incestuous experience," he adds.

"With the insurance amalgamations in Europe and North America, until Lloyd's thinks that service is more important than pontificating about 300 years of history, there is a severe risk that we will lose out. Lloyd's is ceasing to be a user-friendly market," he warns. ■

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INTERNATIONAL

GLOBAL BRIEFS

Continued from page 55
tive officer of the French insurance company.

The insurer's strategy is "to put in place managers who best understand the needs and culture of each specific market," Mr. Bebear explained.

"The goal of AXA Re Asia will be to provide financial strength and professional expertise in this burgeoning region of the world," Mr. Bebear said.

The company has reinsurance subsidiaries in Paris, Montreal, London and New York.

Hong Kong benefits

HONG KONG—Pressure is growing in Hong Kong for a five-day work week, says benefit consultant William M. Mercer Inc.

In Hong Kong, most employees working for local companies work Monday through Saturday, according to a recent Mercer survey.

Only 10% of the local firms surveyed give their employees Saturday off, while 84% of foreign-owned firms don't require staff to work on weekends, it found.

"Local companies are under increasing pressure to introduce a five-day work week because of the labor shortage and the growing number of multinationals who follow their overseas policy of a five-day work week," said Jon Robinson of Mercer's Hong Kong office.

The labor shortage also is causing employers to increasingly offer benefits like profit sharing, retirement plans and better health care, according to Mercer.

"There are many hot labor issues currently under debate in Hong Kong," Mr. Robinson said. "One is staggered working hours to ease rush hour congestion. I see a flex time schedule during a five-day working week to be a real possibility in the future," he added. ■

Coverage suit

Continued from page 55
cover for the Nyngan property, the broker "had no hesitation in confirming. . .that the store was fully covered against the peril of flood."

Mr. Tween noted in the letter that because the Nyngan store was covered as an addition to the policy for the other two stores, there was no separate proposal form. "We conclude that they only reason you have denied the claim is because the policy document has not been worded to cover flood. This is merely a technicality."

In a May 29 response, A.M.P.'s Mr. Peden wrote, "at no time was A.M.P. asked to provide flood cover for Nyngan." And, he indicated that a separate policy document was required.

"If, as you state, the client at renewal in 1989 specifically requested confirmation of flood cover, that request was not passed on to us," Mr. Peden wrote.

Northern, Southern & Western Supermarkets' policy covered the Nyngan supermarket and butchery for up to $550,000 Australian ($432,300) for plant and equipment and $310,000 Australian ($243,660) for stock. Business interruption limits were $1.45 million Australian ($1.1 million) for gross profit, $110,000 Australian ($86,460) for wages, and $400,000 Australian ($314,400) for goodwill. ■

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EOE

Futures contracts

Continued from page 2

"We definitely want to see the proposal to see what effect it would have on the solvency of companies that would purchase the contracts, or however way they would work the futures contract."

Other observers say they also are skeptical about the use of such contracts as reinsurance.

For example, James Guenther, an assistant vp with rating agency Duff & Phelps in Chicago, said he does not know who would be willing to sell the contracts.

"The fundamental question is, if the insurance companies are looking to hedge that risk, who on the other side wants it?" he asked.

"From the sellers' side, I can't see any substance there," agreed Paul Ingrey, president of F&G Re in Morristown, N.J., a USF&G Corp. unit. "That's what's gossamer about the whole thing. I don't understand how capacity is going to come together."

David Wells, vp with rating agency Fitch Investors Service in New York, also questioned whether futures contracts would be a viable alternative to "plain" reinsurance.

It's a "zero-sum game," he said. "Someone may win, but someone's going to lose. I just don't think everyone is going to make out happily."

"I just don't see how this type of market transaction fits today's market needs," especially in light of increased focus on market security, said Michael Smith, a Shearson Lehman Hutton analyst in New York.

This proposal would mean speculators would become involved in the business, he added.

"This dates back to the early '80s when reinsurance was a rather fast and loose game and almost anybody could play" and "when nobody cared who their partner was across the table," he said, adding "those days have changed—permanently."

Such contracts would be attractive to insurers that have grossly underpriced their business, Mr. Smith said. But "I just can't see anybody being a seller in this market."

In addition, the continuing soft market raises the question of whether such contracts are needed, observed Jack Blaine, president of the Washington, D.C.-based Reinsurance Assn. of America. "There's no problem right now with capacity. There is more than adequate capacity in the reinsurance market."

However, Shearson's Mr. Smith said that the CBOT proposal "certainly doesn't represent competition for the reinsurance industry in this country."

One reason is that ceding companies most often obtain reinsurance for long-tail casualty risks, which are not included in the proposal.

In addition, reinsurance has been moving away from a commodity-type approach—which the CBOT proposal reflects—toward "relationship-basis" transactions in which insurers and reinsurers deal with each other over long periods of time, Mr. Smith said.

Meanwhile, in London last week, CBOT officials met with financial experts to discuss providing the CBOT reinsurance futures contracts products internationally.

Attending the meetings were:

- CBOT Managing Director Peter Donnelly and former CBOT Chairman Leslie Rosenthal.
- Richard Sandor, president and chief executive officer of the international capital markets of the French banking group Bank Indosuez and, sources say, the person who developed the idea of a reinsurance futures contract.
- Robert Miller, freelance consultant and one of the originators of the London International Financial Futures Exchange.
- Reinsurance brokers Russell Willmer, director of the financial reinsurance division of E.W. Payne Ltd., and William Few, associate director of Steel Burrill Jones Non-Marine Ltd.

However, so far nothing will be done to provide the CBOT reinsurance futures in London, Mr. Willmer said. "The ball is in the air," he said.

The CBOT proposal does not match the policies written in the London or European markets, he explained.

For example, the CBOT's proposed U.S. auto collision reinsurance futures are not conducive to auto policies written in Europe, he said.

Instead, London would like to see reinsurance futures for such risks as aviation or marine, Mr. Willmer said.

"If the CBOT can make something international, that would be great," he said. "But then we would need other contracts than the two that the CBOT has developed."

Meanwhile, the London market is waiting for its own futures and options market to come up with its own version of reinsurance futures.

However, those proposals are not expected for at least six months, according to Trevor Slade, finance director of the International Commerce Clearing House.

Messrs. Slade, Few, Willmer and Miller have been discussing the possibility of a London reinsurance futures market for more than two years, but the plans had been virtually shelved until the CBOT announced its proposed reinsurance futures in May, Mr. Willmer said.

"Because of the CBOT, we are encouraged to dust it off and look at them again," Mr. Slade said in May.

"The onus is on the people in London to make a move," Mr. Willmer said last week. ■

Datebook

JULY

JULY 8-10. Annual Insurance Regulatory Examiners Society Meeting and Career Development Seminar in Kansas City, Mo.; $50 for IRES members; $75 for non-members. Insurance Regulatory Examiners Society, 6811 W. 63rd St., Suite 208, Overland Park, Kan. 66202; 913-831-0080.

JULY 8-12. 26th Annual International Insurance Seminar in Paris, sponsored by the International Insurance Society Inc.; $1,000; $500 for academics and government officials; $400 for spouses and guests. Mary B. Silberberg, Executive Director, International Insurance Society, P.O. Box 870224, Tuscaloosa, Ala. 35487-0224; 205-348-8974.

JULY 9. Infectious Material Management seminar in Orlando, Fla., sponsored by the Environmental Resource Center; $300. Environmental Resource Center, 3679 Rosehill Road, Fayetteville, N.C. 28311-6634; 919-822-1172.

JULY 9-10. Underground Storage Tank Management Course in Chicago, sponsored by Executive Enterprises Inc.; $1,045. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880.

JULY 9-11. 1990 Investments Institute in Monterey, Calif., sponsored by the International Foundation of Employee Benefit Plans; $525 for IFEBP members; $600 for non-members; after May 25 add $45. IFEBP, Registration Department, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6700.

JULY 9-13. Fundamentals of Employee Benefits Management course in Brookfield, Wis., sponsored by the International Foundation of Employee Benefit Plans; $1,000 for IFEBP members; $1,125 for non-members. **Also Aug. 13-17, Sept. 10-14** and **Oct. 22-26** in Brookfield, Wis. IFEBP, Registration Dept., P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6700.

JULY 10. Hazardous Waste Management seminar in Orlando, Fla., sponsored by the Environmental Resource Center; $350. **Also July 17** in Charlotte, N.C., **July 19** in Houston, **July 24** in Cleveland and **July 26** in Chicago. Environmental Resource Center, 3679 Rosehill Road, Fayetteville, N.C. 28311-6634; 919-822-1172.

JULY 10-12. Environmental Regulation Course in Chicago, sponsored by Executive Enterprises Inc.; $1,045. **Also July 10-12 in Washington, D.C.; July 16-18 in Albuquerque, N.M.; and July 30-Aug. 1 in San Diego.** Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880.

JULY 11. SARA/OSHA Right-To-Know seminar in Orlando, Fla., sponsored by the Environmental Resource Center; $350. **Also July 18** in Charlotte, N.C., **July 20** in Houston, **July 25** in Cleveland, and **July 27** in Chicago. Environmental Resource Center, 3679 Rosehill Road, Fayetteville, N.C. 28311-6634; 919-822-1172.

JULY 11-12. Reinsurance in the '90s-Changing the State of the Art symposium in Princeton, N.J., sponsored by The Society of Chartered Property & Casualty Underwriters; $320 for Society of CPCU members; $395 for non-members. Mari Jennings, Continuing Education Coordinator, The Society of CPCU, 720 Providence Road, CB No. 9, Malvern, Pa. 19355; 215-251-2741.

JULY 12-13. Defending a Personal Injury Case seminar in New York City, sponsored by the Prac-

Continued on next page

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Datebook

Continued from previous page
tising Law Institute; $295. Practising Law Institute, Dept. 8A-105. 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700, Ext. 271.

JULY 12-13. Understanding ERISA: An Introduction to Basic Employee Benefits seminar in New York City, sponsored by the Practising Law Institute; $450. Practising Law Institute, Dept. 8A-105, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700, Ext. 271.

JULY 13-14. Loss Prevention Seminar in Chicago, sponsored by The Assn. of Engineering Firms Practicing in the Geosciences; $245 for ASFE members; $315 for non-members. **Also Aug. 3-4** in Boston. Assn. of Engineering Firms Practicing in the Geosciences, 8811 Colesville Road, Suite G106, Silver Spring, Md. 20910; 301-565-2733.

JULY 15-17. Financial Aspects of Premium Rate Development conference in San Francisco, sponsored by the Group Health Assn. of America Inc.; $490 for GHAA members; $590 for non-members. Group Health Assn. of America, 1129 20th St. N.W., Suite 600, Washington, D.C. 20073; 202-778-3228.

JULY 16. Underground Storage Tanks seminar in Charlotte, N.C., sponsored by the Environmental Resource Center; $200. **Also July 23** in Cleveland. Environmental Resource Center, 3679 Rosehill Road, Fayetteville, N.C. 28311-6634; 919-822-1172.

JULY 16-17. Basic Product Liability and Toxic Tort Litigation seminar in New York City, sponsored by the Practising Law Institute; $295. Practising Law Institute, Dept. 8A-105, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700, Ext. 271.

JULY 16-20. Health Risk Assessment course in Santa Barbara, Calif., sponsored by the University of California at Santa Barbara; $345. UCSB Extension, Santa Barbara, Calif. 93106; 805-961-4143.

JULY 17-18. Property Claims Handling Seminar in Rosemont, Ill., sponsored by the National Assn. of Mutual Insurance Companies; $199 for NAMIC members; $219 for non-members. Dawne Smith, Education Department, National Assn. of Mutual Insurance Companies, 3707 Woodview Trace, P.O. Box 68700, Indianapolis, Ind. 46268; 317-875-5250.

JULY 17-20. National Conference of Insurance Legislators Seminar in Washington, D.C.; $150 for legislators and staff; $25 for spouses; no charge for state insurance department personnel. National Conference of Insurance Legislators, P.O. Box 217, Brookfield, Wis. 53008; 414-782-6669.

JULY 17-20. Reinsurance Claims-Including Insolvency & Liquidation seminar in Tarrytown, N.Y., sponsored by Robert W. Strain Seminars Inc.; $1,545. Strain Seminars Inc., P.O. Box 1000, Wingdale, N.Y. 12594; 212-677-5974.

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Florida reforms

Continued from page 3

Gov. Martinez and employers are praising the new law.

Gov. Martinez said the reforms "will help hold down the high costs of Florida's workers compensation system, which was spiraling out of control and threatening to drive businesses out of our state."

The law "will produce tremendous savings to employers and increase the likelihood that injured workers will get the benefits they need," he said.

"The statute goes a long way toward correcting problems" that were part of the old law, said Mary Ann Stiles, a Tampa lawyer with the firm Stiles, Allen & Taylor, who served on the Workers Compensation Oversight Board appointed by Gov. Martinez last year that was charged with developing recommendations for overhauling the law.

The new law is "a great step in the right direction," said John Conroy, risk manager at Florida Rock Industries Inc., a mining and concrete company in Jacksonville.

Although Florida Rock self-insures its workers comp exposure, it "will obviously be affected by the changes in benefits" and other cost-saving measures included in the law, Mr. Conroy said.

Jim Brainerd, general counsel and chief lobbyist for the Florida Chamber of Commerce, called the bill "the most comprehensive piece of legislation on workers comp passed in the last decade. It may, in fact, let us turn the corner on workers comp in Florida."

He said testimony before the Legislature during the debate over the law indicated that the new system eventually could save employers and insurers in the state $1 billion in premiums and benefit costs.

And when the NCCI files for rate changes in 1992, "it is my firm belief that if the bill is implemented properly, that rate filing might even be for a further reduction because of the savings in the bill," Mr. Brainerd said.

Insurers hope the new law will result in rate adequacy, but they have some reservations.

Robert Hilton, a Florida-based vp with the NCCI, said last week that insurers were waiting for a clarification about the law that could influence their opinions.

Although the law prohibits rate "deviations and discounts," it is not clear whether the practice of refunding premiums—commonly known as premium discounts—will be prohibited. Workers comp insurers routinely return a portion of premiums as a way of providing "volume discounts," he explained.

If premium discounts are not prohibited, many insurers will be forced to continue the practice to remain competitive, and that would further erode rate adequacy, Mr. Hilton explained.

A clarification on this point of the new law will have a "fairly substantial impact on the decision insurers will make on how devastating the 25% rollback will be," Mr. Hilton said.

Regardless of the decision regarding premium discounts, Mr. Hilton said that "nobody on the insurance side is pleased with an automatic rollback."

Workers comp insurers are pleased, though, that benefit reductions will allow them to recoup some of what will be lost through the rollback, Mr. Hilton said.

And, if premium discounts are eliminated, there is the possibility that workers comp insurers in 1990 could end up "fairly close to overall rate adequacy," he said.

But trial lawyers object to the reductions in benefits and say the law does not go far enough in requiring changes in workplace safety measures that could have lowered the cost of the workers comp system by reducing injuries.

"We are generally pretty unhappy with it. The primary reason is that the legislation is going to deliver premium cuts to employers, but almost exclusively at the expense of injured workers," said Kenneth Kranz, executive director of the Florida Workers Advocates and a lobbyist for the Florida Academy of Trial Lawyers.

Despite the mandated 25% rate rollback, not every employer will see premiums drop by that amount.

"I'm trying to forewarn people that their insurance bill will not necessarily be cut by a quarter because of this law," said Todd Thomas, president of the Lakeland-based Florida Employers Safety Assn., an employer-sponsored safety advocacy group.

Mr. Thomas explained that some employers were receiving discounts of up to 15% already.

Elimination of the discounts and deviations is a "sore spot" with Mr. Thomas because those breaks were given to policyholders with good loss records. Eliminating those price breaks means "the good risks are subsidizing the bad risks," he said.

Employers in the Assigned Risk Plan will see the entire 25% reduction because deviations and discounts are not allowed in the residual market, pointed out Mr. Brainerd of the Chamber of Commerce.

Ms. Stiles, the attorney who served on the governor's workers comp board, said an important section of the new law eliminates from wage-loss calculations the value of a myriad of fringe benefits.

For example, under the old wage-loss law, even the value of bird seed that an injured pet shop worker was allowed to take home free of charge from the job was included in the calculation of her wages to determine her weekly benefit, according to Ms. Stiles.

But, the new law considers only the value of the following benefits in determining workers comp wage-loss benefits:

- Employer-furnished housing that is the year-round residence of the worker.
- Taxable gratuity income.
- Employer contributions toward the cost of the worker's health care coverage.

Mr. Thomas called the benefits revision "a victory for employers."

Mr. Thomas said allowing unlimited fringe benefits to count as wages often led to litigation of workers comp claims. He said workers' attorneys sometimes would challenge wage-loss calculations that that did not include "every infinitesimal benefit, from the company picnic to bird seed. Eliminating that will eliminate a lot of litigation."

Also under the law, injured workers with permanent partial impairments will be eligible for wage-loss benefits based on a sliding scale related to the employee's percentage of impairment.

For example, a worker with a 1% to 3% impairment rating will receive 26 weeks of compensation benefits.

Workers with impairments rated 25% or greater can receive up to 364 weeks of wage-loss benefits.

Under the old law, an injured worker, regardless of the amount of the impairment, was eligible for up to 525 weeks of benefits.

In addition, the calculation for determining the amount of wage-loss benefits for workers with permanent partial impairments who still can work has been reduced from a "95/85" formula to an "80/80" calculation.

That means wage-loss benefits under the new will be equal to 80% of the difference between 80% of the state's "average weekly wage and the salary, wages and other remuneration the worker is able to earn after reaching maximum medical improvement."

Formerly, benefits were equal to 95% of the difference between the average weekly wage and the employees remuneration after reaching maximum medical improvement.

As under the old law, wage-loss benefits cannot exceed 66⅔% of the employee's average weekly wage at the time of injury.

The law also reduces the calculation of wage-loss benefits for temporary partial injuries from the 95/85 formula to the 80/80 method.

In addition, an injured worker cannot be declared permanently and totally disabled under the new law if he or she is capable of engaging in light work within a 100-mile radius of home.

In addition, supplemental payments for permanent total disabilities—which equal 5% of regular weekly benefits—will be terminated for claimants at age 62 if the claimant is eligible for Social Security benefits.

Trial lawyers contend that businesses are getting price breaks at the expense of injured workers.

Mr. Kranz said he is disappointed that the new law does not go far enough in establishing workplace safety requirements that could hold down the cost of workers comp claims.

"One of the issues that fell on deaf ears was safety," Mr. Kranz charged.

"Legislators were unwilling to make any efforts to improve workplace safety."

He said the law contains only "fairly trivial administrative fines for safety violations."

However, the act creates a Division of Safety within the Department of Labor and Employment Security and gives the new agency rule-making authority.

And, Mr. Thomas of the Florida Employers Safety Assn. is particularly pleased with the section of the law that calls for creating a drug-free workplace program.

Employers that join the program will be allowed to deny benefits to workers who are injured while under the influence of drugs or alcohol.

Employers that implement the program must follow rules set by the state, including rules governing testing procedures and informing employees of their rights. However, these rules have not yet been drafted.

Mr. Thomas emphasized that the purpose of the program is to create a drug-free workplace and not to deny benefits.

He warned that employers that suspect workers are using drugs or alcohol at work and ignore the abuse with the intention of denying benefits if there is an injury will "find themselves spending a lot of time in court."

Under the new law, a disputed claim must be heard by the new Industrial Relations Commission before a worker can appeal to the state's 1st District Court of Appeals.

Mr. Kranz, the claimants' attorney, complained that adding the additional step will "add a year or so to the process" of settling claims.

However, Ms. Stiles explained that under the old law, it took up to 13 months before a disputed claim would be heard by a workers compensation judge. The new law stipulates a preliminary hearing must be held within 60 days and a final hearing must be held no later than 90 days after the pre-trial hearing.

Under the new law, the judge's decision is automatically appealable by either side to the IRC, which will be staffed by judges who are experienced in workers comp law.

An IRC decision also can be appealed to a state court. But, if the employer appeals, it must pay benefits to the worker until the appeal is heard by the state court.

To hold down medical costs, the new law calls for the state to adopt a schedule of maximum reimbursement allowances for hospitals, physicians, ambulatory centers and work hardening and pain centers—programs designed to rehabilitate workers to perform specific work-related activities.

The new law calls for establishing fee schedules for:

- Hospitals and physicians by Jan. 1, 1991.
- Ambulatory centers by July 1, 1991.
- Work hardening and pain centers by Jan. 1, 1992. ■

Update

Oil spill liability agreement

Continued from page 2

administration supported international protocols that would limit a tanker and cargo owner's liability and bar states from setting their own limits. Language providing for U.S. adoption of the protocols, strongly opposed in the Senate, is included in the House bill, H.R. 1465 (*BI*, June 16).

Conferees dropped the protocols under growing pressure to push the stalled bill through Congress, said a spokesman for committee member Rep. George Miller, D-Calif.

Firm indicted for worker deaths

MILWAUKEE—No trial date has been set for a contracting firm indicted last week on 12 federal criminal misdemeanor charges and two state felony charges in the deaths of three employees in a 1988 methane explosion at a Milwaukee sewer project.

S.A. Healy Co., a McCook, Ill.-based general contractor, was indicted on 12 misdemeanor counts of violating the federal Occupational Safety and Health Act as well as two Wisconsin felony counts as a result of the November 1988 explosion in a section of Milwaukee's $2.25 billion Deep Tunnel project. The blast killed a foreman, the tunnel superintendent and the tunnel safety director.

In addition, Patrick Doig, a Healy project manager, was named as a co-defendant in six of the federal counts.

The firm faces $6 million in fines and Mr. Doig faces $1.5 million in fines and three years of imprisonment if found guilty, said Patricia J. Gorence, the assistant U.S. attorney prosecuting the case.

The state indictments charge S.A. Healy with reckless homicide—a felony under Wisconsin law—in two of the deaths.

No decision has been made about charging the company with reckless homicide in the third death, said Michael McCann, Milwaukee County district attorney.

Officials with S.A. Healy did not return calls.

Bill to cut RICO 'abuse' passes

WASHINGTON—Bringing civil suits under the federal Racketeer Influenced and Corrupt Organizations act would be more difficult under a bill passed last week by the House Crime Subcommittee.

H.R. 5111, introduced last month by Rep. William J. Hughes, D-N.J., would tighten "pattern of racketeering" standards and allow federal judges to act as "gatekeepers," deciding which are legitimate civil RICO cases.

In addition, supporters of the bill say it would require proof of "true criminal activity" to show racketeering.

Rep. Hughes calls his approach a "sound basis for curbing most of the abuses of RICO while at the same time maintaining civil RICO as a useful tool to combat and deter major criminal activity."

Insurance regulators oppose the bill because under the measure judges would be able to apply the new standards to pending insurance fraud suits, says James Long, North Carolina commissioner and vp of the National Assn. of Insurance Commissioners.

"We have no problem with the gatekeeper" provision, but states have spent too much bringing RICO cases against the management of insolvent insurers "to have the rules changed in midstream," he says.

Intended as a deterrent against organized crime, the 1970 act provides for the payment of triple damages and attorneys' fees.

AIG agrees to buy aircraft firm

NEW YORK—American International Group Inc. says its planned $1.3 billion purchase of International Lease Finance Corp., a leading aircraft leasing firm, will fit well into plans to expand its financial services operations.

AIG last week announced it would acquire the Beverly Hills, Calif.-based company in a cash and stock transaction.

ILFC shareholders are to have their choice of either $32.50, or 50 cents and 0.3 AIG shares for each ILFC common share. However, some terms of the deal could be adjusted to reflect a 5-for-4 split in AIG stock, which is to be paid as a 25% stock dividend on July 23.

The transaction is also subject to ILFC shareholder approval, opinions about its tax consequences and other conditions.

AIG says it plans to finance the cash portion of the transaction with internal sources. The insurer also has agreed to provide up to $125 million in financing to the leasing firm.

Briefly noted

Seven **wildfires in California** have caused more than $233 million in property damage, including $191 million in Santa Barbara County and $40 million in Glendale, a Los Angeles suburb, fire officials estimated last week. More than 600 homes, at least 15 businesses and five public buildings have been destroyed by the fires, officials say. . . .The New York Court of Appeals, the state's highest court, has agreed to hear three suits filed by property/casualty insurers seeking the return of at least $124 million that the state Legislature appropriated between 1979 and 1982 from **New York's property/casualty guaranty fund** (*BI*, Jan. 23, 1989). A lower appellate court in March upheld a state trial court's decision to dismiss the cases. . . .West German insurer **Allianz A.G. Holdings** last week concluded its purchase of a 51% stake in East German insurer Staatliche Versicherungs der DDR, despite counteroffers from a group of insurers led by Colonia Versicherung A.G. (*BI*, June 18; April 16). East Germany opened its market to other West German insurers on Sunday. . . .California Attorney General John K. Van de Kamp filed suit last week against **Charles H. Keating Jr.**, chairman of American Continental Corp., and accounting firm Arthur Young & Co. over the sale of American Continental debentures (*BI*, June 25; June 11). . . .Provisional liquidators of National Employers Mutual General Insurance Assn. Ltd. are selling NEMGIA's 55% stake in Bermuda-based **National Underwriters (Reinsurance) Ltd.** to Stockholm Reinsurance Co. Ltd. Following the sale, Stockholm Re's ultimate parent, Swedish insurance group Lansforsakringbolagens AB, will own more than 90% of National Underwriters' stock (*BI*, May 21).

Lloyd's results

Continued from page 3

However, these seven categories were "meaningless to names" so Lloyd's has separated 1987 results into four classes—marine, non-marine, aviation and motor—which is how underwriters report their results to the Corporation of Lloyd's.

For 1987, global profits, after members' expenses but before taxes, fell to 509.2 million pounds ($819.8 million at applicable exchange rates) from a record 649.5 million pounds ($1.18 billion) in 1986.

Before members' expenses are deducted, profits declined 13.1% to 880.8 million pounds ($1.41 billion) in 1987 from 1.01 billion pounds ($1.83 billion) in 1986.

The decline in profits in 1987 is understandable because 1986 was a vintage year when rates rose significantly and few major losses occurred.

Mr. Lawrence described the 1987 result as "reasonable."

"It's not as good as 1986. . .but it's some 2½ times greater than the 1985 account," when Lloyd's posted pretax profit after members' expenses of 195.6 million pounds ($367.6 million), Mr. Lawrence said.

Gross premiums increased 17.4% in 1988 to 6.15 billion pounds ($9.91 billion) from 5.24 billion pounds ($9.48 billion) in 1986. But a 28.6% increase in reinsurance premiums ceded meant that net premiums rose only 13% to 4.19 billion pounds ($6.75 billion) in 1987 from 3.71 billion pounds ($6.72 billion) in 1986.

Meanwhile, gross claims shot up 49.1% to 5.62 billion pounds ($9.05 billion) in 1987 from 3.77 billion pounds ($6.81 billion) in 1986. However, net claims after reinsurance recoveries increased only 25.5% to nearly 2.9 billion pounds ($4.67 billion) in 1987 from 2.31 billion pounds ($4.18 billion) in 1986.

After adding reinsurance premiums paid into the 1987 account to close the 1986 account and subtracting reinsurance paid into the 1988 account to close the 1987 accounting year, Lloyd's posted a 44.7% decline in underwriting results to 411.7 million pounds ($662.8 million) in 1987 from 744.6 million pounds ($1.35 billion) in 1986.

Gross investment return, however, increased 47.8% to 810.1 million pounds ($1.3 billion) from 548.1 million pounds ($992.1 million) in 1986.

Lloyd's profits before syndicate expenses dropped 5% to 1.22 billion pounds ($1.97 billion) from 1.29 billion pounds ($2.34 billion) in 1986. Syndicate expenses rose 22.1% to 341.1 million pounds ($549.1 million) in 1987 from 279.3 million pounds ($505.6 million) in 1986.

Meanwhile, Mr. Lawrence said last week that he is encouraged by the reduction in the number of syndicate years that were left open at the close of the 1987 accounts compared with 1986. Ninety-two were left open compared with 115 the previous year.

"It demonstrates the market's determined response to the measures introduced by the Council last year to tackle this problem," he said, alluding to new penalties for open syndicate accounts (*BI,* Aug. 28, 1989).

Despite the lower number of open accounting years, though, reserves and losses on open accounting years have increased.

Reserves for outstanding and incurred-but-not-reported claims for the accounts not closed totaled 911.9 million pounds ($1.47 billion), up 2.9% from 886.4 million pounds ($1.6 billion) a year ago.

In addition, 230.1 million pounds ($370.5 million) was paid in calendar year 1989 toward the open accounts, up 17.9% from 195.1 million pounds ($353.1 million) in 1988.

The 1987 results of the exchange's four individual markets vary.

"Aviation has had a very good year and motor has every good reason to be satisfied with itself," Mr. Lawrence said. "Marine has produced a steady result again and, on the non-marine side, it's a reasonable result overall, although the underwriting result is disappointing. This is due once again to the need to increase the reserves of old years in part. . .for U.S. liability business."

Global profits for the marine market fell 17.1% in 1987 to 291.9 million pounds ($468.7 million) from 352.1 million pounds ($637.3 million) in 1986. That decline "reflects the more difficult underwriting conditions which prevailed" in 1987, said Derek Wills, chairman of Lloyd's Underwriters' Assn.

However, the marine market's "major concern" is for the 1988 and 1989 underwriting years, which still are open, Mr. Wills said.

The $1.4 billion Piper Alpha North Sea oil platform explosion in July 1988 is currently spiraling through the London Market Excess of Loss reinsurance market, where claims notifications faced by various reinsurers and retrocessionaires now total $9 billion, Mr. Wills said.

Several marine syndicates already are making cash calls to help pay for Piper Alpha claims (*BI,* May 28).

In addition, Lloyd's syndicates, along with the rest of the London market, last week paid $344.5 million in reinsurance payments to the protection and indemnity club that insured Exxon Corp. for the pollution cleanup claim from the Exxon Valdez oil spill in Alaska last year, Mr. Wills said. The market earlier paid $43.5 million to the P&I club, he said (see story, page 57).

Mr. Wills estimates that by the end of the year, it will be difficult to find $500 million to $700 million of oil spill liability coverage. Earlier this year, $1 billion to $1.2 billion in coverage was available.

In addition, the marine insurance market has yet to pay the bulk of the physical damage and business interruption loss from the Phillips Petroleum plant explosion last year, added Mr. Wills. The loss is expected to deplete the $1.3 billion in insurance coverage.

The marine market was also hit with its share of Hurricane Hugo claims, he said.

Mr. Wills, who expects a lack of reinsurance capacity during Jan. 1 renewals, said: "We expect a severe and imminent contraction in the ability of the reinsurance market to provide these levels of protections."

Lloyd's non-marine market's 1987 global profits dropped 27% to 281.9 million pounds ($453.9 million) from 385.6 million pounds ($697.3 million) in 1986.

However, the property insurance account produced a "satisfactory" underwriting profit of 300 million pounds ($483 million) in 1987 in spite of the $3 billion in insured losses from the October 1987 windstorm that hit parts of Europe, said Mr. Robertson, chairman of Lloyd's Underwriters' Non-Marine Assn.

"Unfortunately, the total underwriting result has been severely reduced by the deterioration in the earlier years—and in particular the runoff years of accounts left open—due to asbestos claims and pollution problems on U.S. business," Mr. Robertson said.

And even though property/casualty insurance rates were falling in 1988, Lloyd's non-marine market should still produce a profit when the 1988 accounts are closed next year, he said.

However, "record catastrophe losses worldwide," and "international overcapacity and implacable competition" will put pressure on profits for 1989, Mr. Robertson said.

"The reinsurance market is really feeling the crunch and there is going to be a shortage of capacity coming up for next year," Mr. Robertson warned. The shortage of reinsurance capacity won't affect rates this year, but "it will affect the 1990 account."

Lloyd's aviation market's global profits fell 8.1% to 246.2 million pounds ($396.4 million) from 266.3 million pounds in 1986 ($482 million). However, 1987 aviation underwriting profits fell 23.2% to 176 million pounds ($283.4 million) from 229.3 million pounds ($415 million) in 1986. Some 23 jetliners crashed in 1987, killing 776 people.

Declining underwriting profits in the aviation market were almost offset by a 49.3% rise in investment return to 91.4 million pounds ($147.2 million) in 1987 from 61.2 million pounds ($110.8 million) in 1986.

Falling aviation rates, coupled with the crash of 24 jetliners with worldwide claims likely to exceed $900 million, may reduce aviation account profits in 1988, said Robin Eliot, chairman of Lloyd's Aviation Underwriters Assn.

The loss of 28 jetliners in 1989, with total claims exceeding $1.3 billion, on top of "worldwide overcapacity and fierce competition in 1989 and 1990. . .will have a significant effect upon both direct and reinsuring underwriters during the next six months," Mr. Eliot said.

Reinsurance for aviation risks is abundant at the moment, he noted, but "rates will inevitably turn at some time and the question is where will the driving force come from to turn rates. In my view, it must come from the reinsurance market. Whether it's in the next six months, I don't know."

Global profits in the auto insurance market grew more than 550% to 60.8 million pounds ($97.9 million) from 9.3 million pounds ($16.8 million) in 1988. ■

Lloyd's 1987 global profits*

In millions of pounds

	Net premiums		Underwriting profit		Account profit	
	1987	1986	1987	1986	1987	1986
Marine	£1,466.9	£1,316.6	£146.9	£260.0	£291.9	£352.1
Non-marine	1,820.4	1,622.1	8.7	218.3	281.9	385.6
Aviation	428.3	368.8	176.0	229.3	246.2	266.3
Motor	479.3	404.4	80.1	37.0	60.8	9.3
Totals	4,194.9	3,711.9	411.7	744.5	880.8	1,013.3
Names' personal expenses[1]					371.6	363.9
Names' pretax profits					509.2	649.5

* Exchange rates: British pound = $1.61 (1987); $1.81 (1988) 1 Includes annual subscriptions & levies, agents' fees and profit commissions.

Source: Lloyd's of London

BI/CYNTHIA WATSON

Lloyd's members air their complaints

LONDON—Disgruntled Lloyd's of London members took the opportunity of the market's annual general meeting to voice their complaints.

Edward Bloxham, chief executive of troubled underwriting agency R.H.M. Outhwaite (Underwriting Agencies) Ltd., last week called for an independent inquiry into accusations made by members' agent John Donner about the placement of disputed runoff reinsurance policies written by Outhwaite syndicates.

The Outhwaite members are facing hundreds of millions of dollars in losses from the runoff policies (*BI,* May 28).

Earlier this year, Mr. Donner, chairman of Donner Underwriting Agency Ltd., a members' agency representing many of the Outhwaite names, alleged that underwriters placing the runoff policies with Outhwaite syndicates 317/661 had information on asbestosis losses that they did not disclose.

The accusations were examined by four of the non-Lloyd's members of the Council of Lloyd's, including Lloyd's Chief Executive Alan Lord, who are nominated by the governor of the Bank of England.

"The four nominated members concluded that no prima facie evidence of misconduct on the part of anyone in the Lloyd's market had been presented to them nor any other matters that warranted an independent inquiry," said Chairman Murray Lawrence in a statement to members last week.

But Mr. Bloxham is not satisfied.

"Nothing which Mr. Alan Lord has said on this subject appears to have addressed the central issues raised by Mr. Donner," Mr. Bloxham said in a statement last week.

Mr. Lawrence replied after the general meeting last week that "unless and until there is additional information brought by Mr. Donner, by the Outhwaite board, by anyone in the market. . .I cannot see any further action by council."

Meanwhile, Mr. Lawrence has been accused of announcing his desire to step down as Lloyd's chairman when his term expires next year because he allegedly was one of the underwriters with inside information when his syndicate placed a runoff policy with the Outhwaite syndicates.

The chairman downplayed the accusations, saying that Mr. Donner has produced "innuendo" and that "he is flogging a dead horse."

Mr. Lawrence, who was vice chairman of Lloyd's before becoming chairman, said he wants to devote more time to his underwriting agency, Murray Lawrence & Partners, and to his family.

It is unusual for a chairman to announce his retirement before council elections in November, but Mr. Lawrence says he is setting a trend.

Future chairmen will need more lead time before elections to organize business and personal affairs, Mr. Lawrence said. "Quite frankly, how many big companies leave it to three weeks before the date (that the chairmanship begins) to announce the change in chairman or chief executive officer?" he asked.

Meanwhile, following last week's annual meeting, the head of the Warrilow Names Committee held a public meeting to discuss further legal action against all the members' agents that placed names on the syndicates managed by CJW (Underwriting Agents) Ltd. and underwritten by Cyril Warrilow.

About 1,452 CJW members now face losses of at least 100 million pounds ($174 million) from the 1984 underwriting year, said Stephen Bailey, partner with the law firm Elborne Mitchell. About 470 members are now suing the CJW agency and their members' agents for negligence.

The CJW names agreed verbally to allow Elborne Mitchell to seek a preliminary ruling to determine whether the members' agents are indeed liable under contract law for the losses of the agents' members.

If the members' agents are declared liable, the CJW names would be able to collect from the members' agents' errors and omissions insurance.

Mr. Benyon also used the public meeting to charge that Lloyd's membership figures are deceptive.

About 1,300 members will resign from Lloyd's next year, about half this year's total, while about 1,000 new members will join, said Mr. Lawrence.

But "the number of resignations is disguised" by the number of members who belong to syndicates whose accounts have been left open, Mr. Benyon said. Many of these members want to resign from Lloyd's, but they cannot until their losses are paid.

—By Stacy Shapiro

Junk bonds

Continued from page 63

appropriately reflect a company's operating leverage (i.e., premium-to-surplus and reserve-to-surplus ratios). The resulting risk-adjusted capital figure would reflect an insurer's traditional operating leverage as well as its investment leverage.

New regulations requiring higher reserve requirements for junk bond holdings were recently approved by the National Assn. of Insurance Commissioners. The rules are more crucial for life insurers than property/casualty companies, because only life entities have mandatory securities valuation reserve requirements.

The proposed rules are a step in the right direction, although the phase-in schedule dilutes their effectiveness. We believe that all the adjustments should be made at the end of 1990. We realize that the NAIC is concerned about the impact of the new rules on a company's financials. A marked reduction in a carrier's statutory capital base could bring into question its ability to continue to write new business or even sustain its existing book.

However, the NAIC should also recognize that the distorted perceptions of some companies' officers between real and apparent capital are also undermining the industry's financials by compromising pricing standards.

We recognize that in reality both sides of an insurer's balance sheet should be marked to the market value. Eventually this may well occur. At this juncture, however, it is a very cumbersome undertaking and perhaps it is not feasible.

In the property/casualty industry, numerous questions remain about liabilities, particularly the reserve base. In general, the industry's reserves have proven deficient. How does one discount that which is deficient to begin with? The last thing that is needed is for the asset side of the balance sheet to be brought into question.

Many investors are questioning which agency or group would force the insurance industry to implement effective asset valuation methodologies given the perceived weakness of the NAIC. We believe that the Securities and Exchange Commission or the accounting profession could provide the impetus to have assets valued at current values.

The table on page 63 summarize our findings for many major property/casualty insurers. The figures include junk bond holdings from life insurance units. ■

Insurer 'integrity' still threatened

By MYRON M. PICOULT

Special to Business Insurance

EARLIER THIS YEAR we stressed the need for investors to review insurance balance sheets with greater care. This was based on the belief that the financial risks for the industry as a whole have increased and that balance sheets in general have been compromised. These concerns stretched across the entire spectrum of the life, property/casualty and reinsurance businesses.



Mr. Picoult

It has been estimated that insurers hold about 30% of the $200 billion high-yield pie. Of the $200 billion, about $155 billion of non-investment-grade issues were sold over the past 10 years. "Fallen angels," or bonds that were purchased as investment-grade but were later downgraded, are estimated to account for another $45 billion.

A report from the Bond Investors Assn. earlier this year predicted that there will be $40 billion in defaults in the high-yield junk bond market between 1990 and 1992.

For the most part, the emphasis on bond holdings has centered on taxable instruments. Indeed, there may well be some clinkers in the tax-exempt industrial revenue sector, too.

We continue to believe that balance sheet integrity will remain an important investment criterion, with companies that have strong balance sheets receiving premium price-to-earnings multiples. It would be fallacious to believe that the pressures being brought to bear on the banks and savings and loan industries with respect to asset quality will not find their way into the insurance industry.

Our latest review covers year-end 1989 holdings of fallen angels, leveraged buyout paper, public high-yield bonds, private placements and problem bonds. Most insurers modestly reduced their holdings through the first quarter of 1990.

We recognize that there is a problem defining junk bonds. Hence, junk bond holdings should be viewed in the context of a company's overall portfolio and not in a vacuum.

Our sense is that the risk profile of the insurance business has increased in recent years. For example, in the property/casualty business, the growth in liability coverages and the rise in retention levels for many insurers have increased overall operating exposure. At the same time, there has been a deterioration in reserve levels, questions about reinsurance recoverables, increasing signs of a cash-flow squeeze and a reduced ability to accrete statutory capital at many insurers.

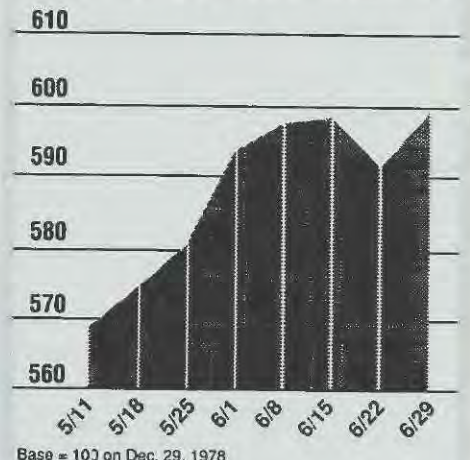
Investments in junk and non-investment-grade issues are not necessarily bad. In fact, such investments have a place in most insurance company portfolios—but within certain parameters. The key is to recognize that junk bond holdings are only a small part of a much bigger question about a company's investment mix and the leverage that is imparted. Exposure to mortgages and real estate is relatively small for most property/casualty insurers; generally, bonds and equity investments represent the lion's share of invested assets.

In the property/casualty area, more work needs to be done to tie portfolio holdings and their volatility to statutory capital bases and

Continued on page 62

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BI Insurance Index



Base = 100 on Dec. 29, 1978
Source: Nordby International Inc.

Insurance industry stocks regained their momentum last week, as the *Business Insurance Index* climbed 7.5 points to 598.8 on June 29, from 591.3 on June 22. Advancing issues were led by Protective Life Corp., up 12.6%; Durham Corp., up 10.2%; and United Medical Corp., up 8.9%. Decliners followed Poe & Associates Inc., down 5.21%; Selective Insurance Group, down 5.19%; and NWNL Cos., down 5.0%. The most active issue during the period was Sears, Roebuck & Co. (Allstate), 2.2 million shares traded. The *BI* Index gained 1.3% for the week; the Dow Jones 30 Industrials were up 0.81%; the Standard & Poor's 500 Index gained 0.75%; and the New York Stock Exchange Composite grew by 0.64.%.

British Issues

June 28 Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence	pence
Comml Union	515	23.7	28.7	5.6	525	515
Genl Accident	1125	17.2	66.7	5.9	1137	1119
Gdn Royal Exch	241	21.0	15.3	6.3	247	241
Royal	483	26.0	34.0	7.0	505	483
Sun Alliance	335	12.2	16.7	5.0	340	332
Brokers						
Bradstock	254	17.8	10.0	3.9	254	254
CE Heath	514	15.2	34.5	6.7	524	514
Hogg Group	179	11.8	9.7	5.4	179	177
Lloyd Thompson	295	18.4	9.7	3.3	295	295
PWS Holdings	85	13.5	3.3	3.9	85	83
Sedgwick Grp	245	18.3	16.0	6.5	248	245
Steel Brrl Jones	289	17.6	14.7	5.1	290	289
Willis Faber	250	15.8	16.0	6.4	252	250

Source: Philip Olsen, Insurance Industry Specialist London

Insurers' junk bond holdings*

Company[1]	"Fallen angels"	LBO-related	Public high-yield	Private placements	Non-accruing/ problem bonds	Total junk bonds	Total invested assets
Aetna	$732.0	$92.0	$216.0	$96.0	$229.0	$1,365.0	$61,191.0
AmBase	NA	NA	NA	NA	NA	400.0	4,556.4
AIG	116.9	189.6	67.5	96.4	3.3	530.6	30,931.9
Chubb	40.0	—	NA	NA	NA	NA	8,194.0
CIGNA[2]	NA	236.0	410.0	869.0	NA	1,543.0	36,967.0
Continental	14.1	—	19.2	—	—	33.6	9,549.1
Fund American	—	—	75.6	—	21.3	96.9	7,793.0
General Re[3]	46.0	—	—	23.0	—	69.0	10,389.5
Kemper	NA	NA	1,370.0	NA	NA	1,370.0	7,962.9
SAFECO[3]	195.1	95.0	267.1	74.0	7.5	638.7	7,953.0
St.Paul	25.0	—	—	—	—	25.0	8,106.8
Travelers	50.0[3]	NA	390.0[3]	920.0	—	1,360.0	43,492.8
USF&G[4]	—	201.9	669.1	—	8.2	879.2	10,929.0

* In millions of dollars as of Dec. 31, 1989 1 Consolidated data 2 Shareholder data 3 Estimated 4 As of Jan. 31, 1990 NA Not available

Source: Oppenheimer & Co.

BI/CYNTHIA WATSON

BI Industry Stock Report

JUNE 25, 1990 THROUGH JUNE 29, 1990

		Price	Weekly % change	Year to Date % change	Annual High	Annual Low	Vol.(000)	$ Div.	% Yield	P/E	Book value	Mkt/Bk. value
BROKERS												
Alexander & Alexander	NYS	24 38	-1 02	-22 62	34 00	23 25	292	1 00	4 10	19	9 18	2 66
Corroon & Black	NYS	31 75	2 42	-16 99	41 00	28 50	455	1 36	4 28	17	12 73	2 49
Gallagher Arthur J & Co	NYS	23 00	-0 54	-7 07	26 50	19 88	32	0 60	2 61	17	5 33	4 32
Frank B Hall	NYS	3 13	4 17	4 17	4 38	2 50	61	0 00	0 00	-2	-2 80	-1 12
Hilb, Rogal & Hamilton	OTC	13 50	-1 82	-27 52	20 63	12 00	15	0 28	2 07	18	4 60	2 93
Marsh & McLennan	NYS	76 75	2 68	-1 60	89 75	63 38	403	2 60	3 39	18	10 56	7 27
Poe & Associates	OTC	11 38	-5.21	-14 15	13 00	8.00	5	0 40	3.52	14	1 93	5.89
BROKERS	AVERAGE		0 1	-12 3					2 9	15		
CONGLOMERATES & HOLDING COMPANIES												
Berkley W R Corp	OTC	40 75	-2 40	-2 10	46 50	31 75	176	0 44	1 08	9	25 06	1 63
Berkshire Hathaway Inc	NYS	7225 00	2 48	-16 23	8900 00	5675.00	0	0 00	0 00	-24	2869 00	2 52
ITT (Hartford Group)	NYS	57 50	-1 50	-3.97	64 50	51 38	1103	1 60	2 78	8	56 33	1 02
Sears (Allstate)	NYS	36.50	0 34	-5.81	47.25	34.75	2201	2.00	5 48	10	37.75	0 97
CONGLOMERATES	AVERAGE		-0 3	-7 0					2 3	1		
INSURERS/REINSURERS												
Aetna Life & Casualty	NYS	52 25	0 48	-9 91	62 50	45 25	504	2 76	5 28	9	58 11	0 90
Ambase Corp	NYS	7 00	3 70	-44 55	16 38	5 75	436	0 00	0 00	8	29 08	0 24
American General	NYS	48 00	1 86	46 56	50 63	28 13	1941	3 20	6 67	14	34 68	1 38
American Heritage	NYS	22 00	0 57	-22 81	24 63	19 63	0	1 00	4 55	11	22 60	0 97
American Indemnity Fin'l	OTC	5 25	-4 55	-34 38	12 75	4 25	1	0 08	1 52	-1	17 38	0 30
American International	NYS	96 38	-2 65	-8 65	112.00	81.75	2073	0.52	0.54	12	41 92	2.30
Acm Corp	NYS	37.50	-6.25	-11 50	43 25	33.38	138	1 52	4.05	10	19.62	1.91
Argonaut Group	OTC	76 50	0 00	11 07	77 25	57 00	53	1 60	2 09	9	36 83	2 08
AVEMCO Corp	NYS	29 75	7 21	22 05	28 75	20 38	41	0 40	1 34	20	9 52	3 13
Baldwin & Lyons Inc	OTC	21.63	0 58	0 58	24.00	18.13	5	0 28	1 29	7	20 80	1 04
Belvedere Corp	ASE	3 88	0 00	-29 55	5.63	3.38	1	0 04	1 03	-5	8 03	0 48
Chandler Insurance	OTC	8 75	2 94	-25 53	13 25	7 63	23	0 00	0 00	4	9 53	0 92
Chubb Corp (s)	NYS	44 75	-2 19	-53.32	51 38	34 25	887	1 32	2 95	9	55 49	0 81
CIGNA Corp	NYS	50 13	-1 23	-16 80	66 75	45 25	451	3 04	6 06	11	66 64	0 75
CNA Financial Corp	NYS	73 50	-1 51	-26 50	108 75	68 25	109	0 00	0 00	9	54 87	1 34
Continental Corp	NYS	29 88	0 42	-4 78	38 63	25 75	323	2 60	8 70	12	41 36	0 72
Durham Corp	OTC	31 00	10 22	0 81	34 75	28 00	8	0 92	2 97	14	26 32	1 18
Fund American Corp	NYS	33 13	-3 28	-6 03	40 75	29 50	378	0 68	2 05	49	32 74	1 01
Fremont General Corp	OTC	15 50	-1 59	-22 98	22 50	14 38	340	0 80	5 16	7	19 09	0 81
Frontier Insurance Group	NYS	23 75	3 26	28 38	23 75	15 50	44	0 00	0 00	9	7 29	3 26
General Re Corp	NYS	85 50	0 29	-5 00	96 25	64 75	559	1 52	1 78	13	29 04	2 94
Hanover Insurance Co	OTC	26 25	0 48	-13 93	33 00	22 75	152	0 44	1 68	8	32 03	0 82
Harleysville Group	OTC	26 38	2 93	-4 09	28 75	19 50	80	0 60	2 27	8	18 94	1 39
Hartford Steam Boiler	NYS	60 00	0 84	10 60	60 75	41 50	80	1 80	3 00	16	18 94	3 17
Kansas City Life Ins	OTC	36 00	0 00	0 35	36 25	34 50	9	1 12	3 11	10	39 22	0 92
Kemper Corp	NYS	41 50	0 61	-12 17	51 88	34 00	304	0 92	2 22	10	29 97	1 38
Lawrence Insurance Group	ASE	9 00	5 88	26 32	9 13	6 50	7	0 35	4 00	16	4 40	2 05
Liberty Corp	NYS	47 00	0 00	10 59	50 25	34 75	12	0 92	1 96	16	31 82	1 48
Lincoln National	NYS	55 38	1 14	-9 22	62 88	50 50	628	2 60	4 70	10	43 19	1 13
NAC Re Corp	OTC	34 75	5 30	-4 14	41 00	26 25	113	0 20	0 58	15	22 81	1 52
Navigators Group	OTC	33 25	3 91	20 91	33 50	25 25	7	0 00	0 00	12	15 22	2 18
Nobel Insurance LTD	OTC	3 25	-1 90	62 50	3 75	1 50	6	0 00	0 00	-2	7 76	0 42
NWNL Companies	OTC	28 50	-5.00	-27 85	44 13	26 50	884	1 32	4 63	6	37 50	0 76
Ohio Casualty Corp	OTC	42 50	1 19	-10 99	52 50	34 75	140	2 32	5 45	11	33 30	1 28
Old Republic Int'l	OTC	27 00	4 85	5 37	29 00	21 13	179	0 72	2 67	6	30 70	0 88
Orion Capital Corp	NYS	21 13	-1 74	-9 14	28 50	18 38	114	0 92	4 36	6	19 72	1 07
Phoenix RE Corp	OTC	10 75	2 38	-17 31	15 50	8 75	27	0 20	1 86	-15	12 99	0 83
Protective Life Corp.	OTC	14 50	12 62	1 75	16 00	10 88	73	0 56	4 69	9	14 54	1 00
Provident Life	OTC	23 63	-2 07	-8 70	30 13	19 00	420	0 80	3 39	7	25 24	1 02
Re Capital Corp	ASE	13 88	2 78	-4 31	15 25	11 00	2	0 00	0 00	11	14 43	0 96
RLI Insurance Corp	NYS	13 50	4 85	52 11	14 75	6 88	26	0 40	2 96	8	12 42	1 09
St Paul Companies	OTC	57 50	-1 29	-4 17	63 50	52 50	935	2 40	4 17	7	43 47	1 32
SAFECO Corp	OTC	36 00	1 05	-9 43	42 38	29 50	1024	1 36	3 78	8	24 87	1 45
SCOR U S Corp	NYS	10 00	1 27	-29 82	14 50	8 38	72	0 20	2 00	13	10 61	0 94
Seibels Bruce Group	OTC	9 88	0 00	-9 20	13 63	8 75	18	0 80	8 10	-2	13 75	0 72
Selective Ins Group	OTC	16 00	-5 19	-16 34	20 25	16 00	53	1 04	6 50	5	15 72	1 02
Statesman Group Inc	OTC	1 94	0 00	-29 53	3 50	1 88	59	0 16	8 26	4	4 19	0 46
Tokio Marine & Fire	OTC	45 25	1 97	-39 97	78 13	40 88	10	1 04	2 30	-	70 93	0 64
Torchmark Corp.	NYS	47 75	5 52	-16 59	58 75	37 88	387	1 40	2 93	12	33 23	3 61
Transamerica	NYS	39 25	1 62	-12 04	48 00	33 75	707	1 92	4 89	9	34 63	1 13
Travelers Corp.	NYS	29 75	-0 83	-19 32	45 00	29 25	780	2 40	8 07	7	44 85	-
Trenwick Group Inc	OTC	25 00	0 00	2 56	26 88	16 13	151	0 48	1 92	12	16 91	1 48
United Fire & Casualty	OTC	34 00	-0 73	3 03	35 00	30 50	1	1 20	3 53	10	22 56	1 51
USF&G Corp	NYS	26 63	-1 84	-10 13	33 88	26 63	913	2 92	10 97	19	22 87	1 16
UNUM Corp	NYS	53 38	4 91	11 78	52 63	33 38	278	0 80	1 50	12	31 20	1 71
USLIFE Corp.	NYS	38 50	2 33	-14 92	48 13	34 75	212	1 48	3 84	8	54 34	0 71
Washington National	NYS	21 38	-0 58	-24 34	29 13	19 50	46	1 08	5 05	79	32 30	0 65
USLICO Corp	NYS	21 50	1 18	-9 47	25 38	21 00	26	1 00	4 65	8	27 73	0 78
Zenith National Ins	NYS	15 38	2 50	-18 00	21 50	13 50	13	0 88	5 72	9	13 81	1 11
INSURERS/REINSURERS	AVERAGE		1 0	-6 8					3 5	10 9		
HEALTH MAINTENANCE ORGANIZATIONS												
FHP International	OTC	18 00	0 00	-15 29	26 38	14 00	284	0 00	0 00	15	3 54	5 08
HMO America Inc	OTC	6 50	4 00	-16 13	10 63	4 38	330	0 00	0 00	8	1 12	5 80
Pacificare Health Sys	OTC	25 50	6 25	-1 92	30 38	13 25	352	0 00	0 00	20	6 35	4 02
Safeguard Health Enter	OTC	6 75	-1 82	-20 59	12 50	5 13	233	0 00	0 00	11	2 99	2 26
Sierra Health Services	ASE	6 75	1 89	-23 94	9 63	4 75	196	0 00	0 00	11	0 62	10 89
United Healthcare Corp	OTC	17 25	5 34	40 82	17 25	7 88	1523	0 00	0 00	22	0 34	50 74
United Medical Corp	ASE	10 75	8 86	79 17	10 63	5 75	26	0 20	1 86	19	5 70	1 89
U S. Healthcare	OTC	18 63	2 05	30 70	19 50	9 63	0	0 36	1 93	25	3 07	6 07
HMOs	AVERAGE		3 3	9 1					0 5	16		
ALL COMPANIES	AVERAGE		1 1	-5 5					3 0	11		

System design: Nordby International Inc.

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