NEWSPAPER

JULY 3, 1995

Business Insurance®

Reporting Weekly on Corporate Risk, Employee Benefit and Managed Health Care News / $4

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Updates

Maine to assess $220 million to cut residual market deficit

AUGUSTA, Maine—Maine Gov. Angus King has signed a controversial law that will resolve the state's large residual market deficit with a complex package of assessments on insurers, employers and the state's property/casualty guaranty fund.

The deficit for policy years 1988 to 1992—estimated at between $190 million to $300 million—sparked sweeping changes in Maine's workers comp system in 1994 that are helping control costs (*BI*, Jan. 9).

The new law calls for an initial payment

See **Updates** *on next page*

Buyers set the agenda in stable market

Most property/casualty rates still competitive

By MICHAEL SCHACHNER and MARK A. HOFMANN

Risk managers report

Risk managers once again are reporting mostly smooth sailing on their summer renewals.

The commercial property/casualty insurance marketplace now, much like that in 1994, is largely being characterized by risk managers as "user-friendly." Rates appear to be firming only for some specific industries.

If there remains one rough spot, it is property coverage in earthquake-prone areas, especially California.

Capacity for earthquake protection in California and Japan is still woefully short, and pricing is high. But, given the fact that both Southern California and Kobe, Japan, were rocked by powerful, devastating earthquakes within the past 18 months (*BI*, Jan. 23), and another smaller quake hit Southern California just last week, risk managers say they are resigned to searching far and wide for the capacity they need to fill their earthquake insurance programs.

For risks without earthquake exposures, though, risk managers happily say they are seeing no major changes in the property insurance marketplace. Some even report improving terms at renewals.

On casualty-driven accounts, risk managers said rates are stable or are coming down by as much as 10% from last summer.

Even major changes this year, such as the acquisition of Continental Corp. by CNA Insurance Cos., the takeover of Home Holdings Inc. by Zurich Insurance Group, as well as concern about the future of Lloyd's of London, have not created waves in the commercial insurance market.

"The whole market is relatively quiet, outside of property risks with earthquake. Those accounts will still be up against a skittish market," said John F. Riley, director of corporate risk management with Dun & Bradstreet Corp. of New York. "But generally, the market has held stable since 1994," he said.

While risk managers say the market is as competitive now as at any time in the past few years, some risk managers are choosing not to push a good thing.

Instead of putting out their renewing programs for bid in hopes of shaving a few percentage points off already favorable premiums, they are working with their insurers to secure better terms.

For example, Scott K. Lange, director of risk management at Microsoft Corp. in Redmond, Wash., said late last month that when putting the finishing touches on an array of July 1 renewals, he avoided "beating up" his insurers at a time when competition is strong.

By maintaining a healthy relationship with his markets, Microsoft will be better positioned for a future turn in market conditions, Mr. Lange said.

"I don't want to go to war with our carriers when it's not necessary. Considering that our business is not out for bid, I feel we're doing well with our renewals.

See **Managers** *on page 35*

Competition pressures focus insurers' efforts on survival tactics

Improving service and security seen as way to retain business

By SARA MARLEY

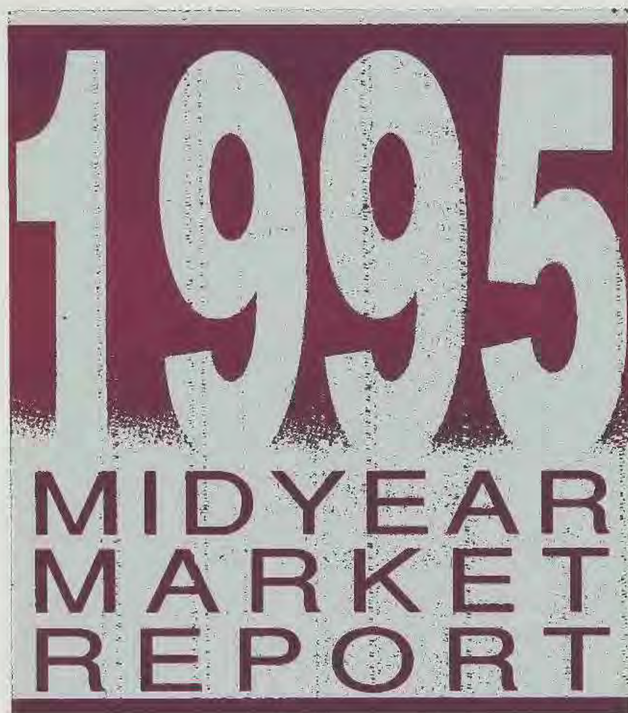
Insurers report

Charles Darwin surely never heard of re-engineering, but as insurers face another soft market renewal they have forsaken that term in favor of one he knew well: survival.

"The market that you're in—that's the market," said J. David McDonald, chief underwriting officer for Royal Insurance Group in Charlotte, N.C. "Competition is as strong as ever, even in property lines. It's almost as if Andrew never happened. Those that are innovative and willing to try different things and willing to fail are the ones that will survive."

"The people that properly price and underwrite and provide the services and security customers are looking for will

See **Insurers** *on page 16*



Reinsurers report .... Page 20
Surplus lines report .... Page 22
London report .... Page 32

Brokers labor to place catastrophe exposures as capacity tightens

But midyear pricing remains soft for other property, casualty lines

By JOANNE WOJCIK and JERRY GEISEL

Brokers report

Property catastrophe risks remain the bump in an otherwise fairly smooth road to summer renewals, brokers say.

Property risks without a catastrophe exposure and most liability insurance lines remain competitive at midyear renewals, with reductions in rates likely.

Policyholders with property risks outside earthquake and coastal zones "should face a nice easy renewal," said Alicia O'Donnell, a senior vp with Johnson & Higgins in New York.

Rates for property accounts with a July 1 renewal in many cases will fall by at least 10%, she predicts.

See **Brokers** *on page 12*

Managed care holding down cost hikes

By CHRISTINE WOOLSEY

Health care report

This summer, benefit managers will enjoy warm temperatures, outdoor recreation, barbecues—and freedom from big health plan premium hikes.

Group health care renewals continue to please most benefit managers, particularly those whose workers receive the [illegible]ority of their health care through health maintenance [illegible]ations.

[illegible] till a buyer's market, with most employers experi[illegible] flat or decreasing premiums for tightly managed [illegible]ealth plans and modest premium increases for point-of-service and preferred provider plans.

Renewals for traditional, fee-for-service indemnity plans, on the other hand, continue to experience double-digit increases at midyear.

Neither consultants, insurers, managed care experts—nor benefit managers themselves—can predict how long the respite from exorbitant health plan increases will last, but they say the remainder of 1995 should offer much of the same.

In general, HMO premium increases are averaging 1% to 5%, with many large employers—particularly those involved in strong purchasing coalitions or those operating in immature HMO markets—enjoying flat rates and even premium decreases at midyear.

Premium increases for POS plans are averaging 5% to 7%, while preferred provider plan premiums generally are increasing 7% to 9%.

Traditional fee-for-service plans continue to be the most costly, with most midyear renewals coming in with double-digit increases of 10% to as much as 25%, depending on the level of medical management.

Meanwhile, increases in administrative costs for employers with self-insured plans are hovering around 5% to 7% at midyear.

Those rates aren't much different than last year's: In June 1994, premium increases ran 2% to 6% for HMOs, 7% to 10% for POS plans, 8% to 10% for PPOs and 9% to 17% for traditional indemnity programs (*BI*, June 27, 1994).

However, indemnity insurers and self-insured employers report that they are seeing a slight uptick in fee-for-service plan costs, and benefit consultants warn that the rise could be a sign of moderate increases down the road for all health plan types.

"In general, health care increases are a continuation of 1994 trends for all health plan products," said Steve Ferruggia, director of the group actuarial practice for Buck Consultants Inc. in Secaucus, N.J. The continuing move of employees into managed care plans from fee-for-ser-

See **Health** *on page 36*

Updates

Maine comp pool legislation

Continued from previous page

of $220 million to cut the deficit. Insurers licensed to write workers comp coverage in the state will pay $65 million of this amount on or before Jan. 1, 1996, with insurers that handled the most workers comp premium during the troubled period paying 90% of that amount.

Beginning July 1, 1995, employers must pay $110 million through workers comp premium surcharges at a rate of 6.32% per year. That is lower than a current surcharge of 9.5%. The Maine Insurance Guaranty Assn. will pay the remaining $45 million over 10 years.

Employers generally support the new law because it will eliminate litigation, provide greater certainty about the amount of their assessments and reduce those assessments, said Alison Jones Webb, executive director of the Maine Council of Self-Insurers.

Insurer reaction is mixed, with the most vocal critics being those insurers that were not writing in the troubled marketplace. The Alliance of American Insurers is "greatly disturbed," because the law requires them to pay for a problem they did not create and perverts the intended use of the guaranty fund, said Rodger S. Lawson, president.

U.K. insurer insolvency ruling

LONDON—A landmark U.K. High Court decision last week—which could affect up to £3 billion ($4.8 billion) in reinsurance recoveries—will boost the assets of insolvent British insurers that have been paying only a fraction of U.S. policyholders' claims.

The High Court ruled in *Charter Reinsurance Co. vs. Feltrim Fagan* that insurers do not have to pay losses before making recoveries from their reinsurers. The ruling also held that once an insolvent insurer agrees to pay a claim, its excess-of-loss reinsurers are liable to pay in full even though the insolvent insurer may only pay a fraction of the claim to the original policyholder.

Now-defunct Charter Re mainly wrote London market excess-of-loss property catastrophe business and cat reinsurance for U.S. ceding companies. Lloyd's of London syndicates formerly managed by Feltrim Underwriting Agencies Ltd. wrote excess-of-loss reinsurance for Charter Re. The Feltrim syndicates will appeal the decision, confirmed Tony Berry, managing director of Lloyd's agency Cotesworth & Co. Ltd.

This ruling will set precedent for all U.K. insurance insolvencies, where the largest assets are the reinsurance portfolios.

Between £2 billion ($3.2 billion) and £3 billion of reinsurance collections from the London reinsurance market may have been withheld while the dispute was heard, said Coopers & Lybrand, provisional liquidators for Charter Re.

Insolvent Trinity Insurance Co. Ltd. is expected to litigate similar issues at trial this week against NRG Victory Reinsurance Co. Ltd.

Windfall for Travelers, MetLife

MINNEAPOLIS—United HealthCare Corp.'s acquisition of MetraHealth, announced last week and expected to close before year end, may ultimately cost the growing health care giant $2.3 billion.

According to the final terms of the deal (*BI*, June 26), Minneapolis-based UHC will pay Travelers Group Inc. $831 million in cash and up to an additional $169 million in cash or UHC stock based on MetraHealth's 1995 earnings.

Metropolitan Life Insurance Co., the other co-owner of MetraHealth, will receive about $500 million in UHC stock—giving it a 5% stake in United HealthCare—and $296 million in cash. MetLife could receive $169 million in additional stock or cash this year as well as in 1996 and 1997, depending on MetraHealth's performance. MetLife agreed to take less up front in exchange for earnings options in 1996-1997 and opted for stock in UHC "because we have an interest in keeping a level of investment in the health care industry," a spokesman said.

MetraHealth Chairman and Chief Executive Officer Kenneth Simmons said that the deal will provide a growth opportunity for UHC that will not result in layoffs of current MetraHealth employees.

Panel OKs bank reform bill

WASHINGTON—Agents are vowing to fight banking reform legislation approved last week by the House Banking Committee.

H.R. 1858, the Financial Regulatory Relief Act, would allow states rather than the federal Comptroller of the Currency, to define and regulate insurance, whether it is sold by agents, insurers or banks (*BI*, June 26). But the committee approved an amendment offered by Rep. Mike Castle, R-Del., that would give the comptroller final say if the comptroller rules that an activity is part of the business of banking. In addition, Rep. Richard Baker, R-La., won approval for an amendment that would allow "affiliations" between banks, insurers and agencies.

Confed rehabilitator files suit

LANSING, Mich.—The U.S. rehabilitator for Confederation Life Insurance Co. is suing 27 of the insurer's former directors and officers, an accounting firm and a bank for breach of trust, negligence and fraud related to Confed's $8 billion failure last year (*BI*, Aug. 22, 1994).

The suit was filed last Wednesday in Ingham County Court in Lansing, Mich., by D. Joseph Olson, Michigan's insurance commissioner and rehabilitator of the U.S. branch of Confed, Canada's fifth-largest life insurer at the time of its failure. The suit alleges Confed's former directors, auditor Ernst & Young of Canada and Harris Trust & Savings Bank of Chicago caused or permitted Confed's Toronto-based parent to remove $600 million in cash and securities from 1992 to 1994 from trusts set up under Michigan law to protect U.S. policyholders.

The funds removed from the trusts allegedly were replaced with promissory notes issued by a Confed subsidiary, Confederation Treasury Services Ltd. CTSL issued more than 600 notes with a face

See **Updates** *on page 50*

House introduces MSA bill

Measure would help cover uninsured catastrophic losses

By MARK A. HOFMANN

WASHINGTON—Medical savings accounts are a health care reform initiative whose time has come.

That was the message delivered to the House Ways and Means Subcommittee on Health by witness after witness last week as the panel heard testimony on H.R. 1818, the Family Medical Savings and Investment Act of 1995. The bill, introduced by Ways and Means Chairman Bill Archer, R-Texas, and Rep. Andy Jacobs, D-Ind., would allow individuals covered by a catastrophic health care plan to establish MSAs to help pay for uncovered health care-related services.

Under the measure, MSAs would be tied to a catastrophic medical plan, which is defined as a plan with deductibles of at least $1,800 for individual coverage or $3,600 for family coverage.

Employers and employees could make annual tax-deductible contributions that would be the lesser of the catastrophic plan deductible, or $2,500 for individual coverage and $5,000 for family coverage.

Employer contributions would not be added to employees' taxable income, though investment income earned on employees' account balances would be included (*BI*, June 19). If an employee did not use up all of the money in the MSA, the balance could be withdrawn for any purpose, although it would be subject to an income tax and a 10% excise tax.

The combination of MSAs and high deductibles will make people

See **MSAs** *on page 51*

Plan would scrap current liability system

Superfund overhaul outlined

By MARK A. HOFMANN

WASHINGTON—A Superfund reform "outline" released by the senator charged with drafting a reauthorization bill advocates eliminating retroactive liability for pre-1981 dumping.

The outline also suggests that Superfund's current system of strict, joint and several and retroactive liability be replaced by a system of proportional liability for acts that occurred after 1980, the year Congress passed the Comprehensive Environmental Response Compensation and Liability Act, which created Superfund.

The document was drafted by Sen. Robert Smith, R-N.H., chairman of the Senate Environment and Public Works Subcommittee on Superfund, Waste Control and Risk Assessment. He is expected to introduce a Superfund reauthorization bill this summer.

The outline also recommends that remedy selection for Superfund sites be more flexible, that states have a greater role in Superfund cleanups and that Superfund provide incentives for the voluntary cleanup of industrial sites.

Although many advocates of eliminating retroactive liability want the controversial provision to be eliminated for dumping that occurred before 1987, the year in which the last major Superfund reauthorization took place, the proposal drew favorable reviews from risk managers and insurers.

"We think it's a very positive framework from which to move forward. Sen. Smith's proposal

See **Superfund** *on page 51*

California bills would restrict managed care

By ROBERTO CENICEROS

SACRAMENTO, Calif.—Some lawmakers in California, the birthplace of the managed health care movement, appear to be in a decidedly anti-managed care mood these days.

Several anti-managed care measures have landed in the California Legislature this session, alarming health insurers and grabbing the attention of employer groups.

Those bills, which have been approved by the Assembly and await Senate action, would require insured health plans to provide more coverage for experimental treatments, force managed care networks to admit additional doctors at patients' request and expand the liability of managed care and utilization review firms.

Some observers fear that the trend may be exacerbated by the election of Doris Allen, R-Cypress, as the new speaker of the Assembly. She has supported

See **California** *on page 50*

Speaker of the Assembly Doris Allen's impact on the bills is uncertain.

Lloyd's will survive: U.S. executive

By RODD ZOLKOS

TRAVERSE CITY, Mich.—Lloyd's of London's restructuring plan might raise questions for policyholders with pre-1993 claims that are segregated into Equitas Ltd., but the arrangement is a good one for those dealing with the ongoing Lloyd's, a reinsurance executive says.

"I don't think there's any question Lloyd's will survive," said Edward B. Jobe, chairman and chief executive officer of Princeton, N.J.-based American Re Corp.

"The big question, I believe, is whether Equitas will have adequate funding to pay off all 1992 and prior losses."

Mr. Jobe—speaking on a panel examining current industry issues during the Conference of Casualty Insurance Companies' recent annual management conference in Traverse City, Mich.—said he believes the corporate money that will be invested in Lloyd's will produce many positive results.

Beyond providing capital, it will bring better corporate governance to Lloyd's, subject the insurer's books to audits and in general prompt Lloyd's to be "much more

See **Issues** *on page 41*

Inside

- Business leaders in the Silicon Valley are seeking legislation to curb shareholder class-action suits. **PAGE 4**
- IBM plans to keep recently acquired Lotus Development Corp.'s benefit culture intact. **PAGE 6**
- Maintaining employee satisfaction with HMOs is a continuing process, this week's editorial says. **PAGE 8**
- Companies should watch for warning signs of punitive damage awards, Perspective columnist Lori Nugent writes. **PAGE 29**
- More European risk managers are turning to alternative risk financing options. **PAGE 43**

Departments

Advertiser Index 40
Ask a Casualty Actuary 29
Benefit Beat 6
Books & Ideas 30
Classifieds 46
Information Resource: Property/Casualty 38
Information Resource: Health Care 40
Insurance Services Guide 47
International 43
Letters 9
Opinions ....
Perspectives ....

Business Insurance (ISSN 0007-6864) Vol. 29, No. 27, is published weekly by Crain Communications Inc., 740 N. Rush St., Chicago, Ill. 60611-2590. Second-class postage is paid at Chicago and at additional mailing offices. POSTMASTER: Send address changes to *Business Insurance*, Circulation Department, 965 E. Jefferson Ave., Detroit, Mich. 48207. $4 a copy and $80 a year in U.S. $100 in Canada and Mexico (includes GST). All other countries $200 a year (includes expedited air delivery). Canadian Post International Publications Mail Product (Canadian Distribution) Sales Agreement No. 0293512, GST No. 136760444. Printed in U.S.A. Copyright 1995 by Crain Communications Inc.

Targets for improvement

Employers to use survey to negotiate with health plans

By CHRISTINE WOOLSEY

CHICAGO—A new survey of employee and employer satisfaction with various types of managed care plans is helping participating employers and health plans set benchmarks for future improvements.

The massive eight-month survey of Chicago-area employers and health care plans revealed high levels of satisfaction among employees enrolled in health maintenance plans, while identifying wide variances in the cost and operational performance of the seven health plans studied.

The survey also concluded that currently available information on clinical quality—like that garnered from the Health Plan Employer Data & Information Set measures—is not thorough enough to be used to drive employer purchasing decisions.

The organizers of the Chicago Health Plan Value Project say it was no small feat getting the purchasers and the plans to agree on the survey methodology and to come to terms with the amount and detail of information to be shared with employers and the public.

But the hard part is just beginning.

Members of the Chicago Business Group on Health—the employer group that sponsored the survey—and representatives from the seven health plans studied now are starting to sift through the mounds of data to identify priorities for improvement. Some employers hope to initiate changes in the plans they contract with as soon as next year.

The findings of the Chicago project "set the stage for more in-depth conversations about what the data means and where we should go from here based on these benchmarks," said Mindy Kairey, a consultant with Lincolnshire, Ill.-based Hewitt Associates L.L.C. and manager of the project.

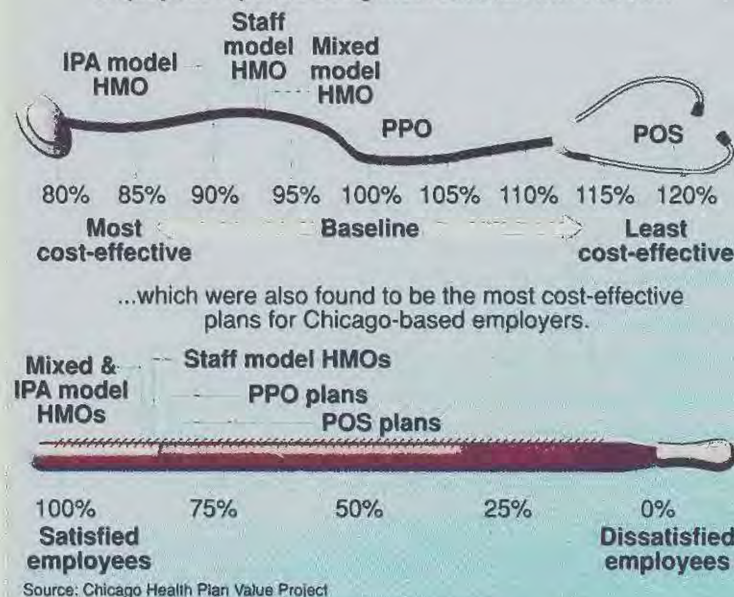
Hewitt designed the survey and analyzed its results.

The employer members of the CBGH initially wanted to use the survey information as a basis for selecting and discarding health plans, she said. "Now they say they don't want to do that but want to identify targeted improvements."

"This study plants the seed for a continuing relationship between purchasers of health care and health plans," commented Larry Boress, vp of the Midwest Business Group on Health, of which the CBGH is a chapter. "It's a starting point for future years' efforts to enhance the ability of

See **Satisfaction** *on page 49*

The pulse on health plans in Chicago



GRAPHIC BY KIM ROME

Ellwood pushes for managed care standards

JACKSON HOLE, Wyo.—Corporate and government health care payers are forging a national partnership designed to hold managed care plans accountable for the health care they provide.

Plans to create a national foundation to endorse common standards to evaluate health plans came out of a meeting hosted last week by Dr. Paul Ellwood, president and CEO of the Jackson Hole Group.

A large, diverse group of health care purchasers and researchers attended, including corporate benefits experts, representatives from the Health Care Financing Administration and officials from the National Assn. of Insurance Commissioners. Executives from two health care accreditation organizations—the National Committee for Quality Assurance and the Joint Commission on Accreditation of Healthcare Organizations—also attended the invitation-only event.

Dr. Ellwood used the meeting to promote the creation of a national foundation that could adopt a common set of performance measurements and serve as a clearinghouse of health care plan performance information.

Health care purchasers agree that reaching a consensus on how to measure health plan performance is critical (*BI*, May 22).

While most of the attendees bought into the basics of Dr. Ellwood's plan, opinions varied widely on exactly what to measure, how to foster health plan accountability and the scope of responsibilities that could be handled by such a foundation.

"People want to see an organization that can act as a resource, push the envelope and concentrate on outcomes and functional status vs. accreditation," said Alan Peres, manager of benefits planning for Ameritech Corp. in Chicago, who attended the meeting last week.

"We aren't trying to take the place of organizations like NCQA and the Joint Commission, but we want to give them new tools and instruments that will enable them to ask the right questions and get information that will really hold providers accountable," he said.

"We talked a lot about what a foundation could do and a committee was formed to explore what a foundation would look like," reported Dennis O'Leary, president of the JCAHCO in Oakbrook Terrace, Ill., who also attended.

"If we could achieve consensus thinking from purchasers and consumers about what performance measures to use, that would be wonderful," he said.

But judging by the divergence in opinion during the Jackson Hole meeting, achieving that consensus could be difficult.

For example, health care purchasers, researchers and regulators disagree about priorities and technical issues, like which tools to use to measure clinical quality, patients' satisfaction and functional status.

For now, the committee will explore issues relating to the formation of an organization, called the Foundation for Accountability, or FAcct. The committee is co-chaired by Dwight McNeill, manager of managed care for GTE Corp., and Dr. Rodney Armstead, director of the office of managed care at HCFA. The committee will propose accountability standards to the Jackson Hole Group in September.

—By Christine Woolsey

State second injury funds threatened by liabilities

By MEG FLETCHER

An increasing number of states are deciding to shut down or significantly restrict their second injury funds rather than face looming, unfunded liabilities for workers compensation claims from previously impaired workers.

In the process, state lawmakers may change the workers comp climate in their states in two significant ways.

For one, legislators generally are increasing the liability costs for individual employers and insurers, which now will be fully responsible for paying claims that previously were transferable to the funds. However, most are willing to accept that burden instead of continuing to pay growing assessments to shore up the pay-as-you-go second injury funds.

Another change may be that the combination of changes in state laws and new employer attitudes will make it more difficult for workers with pre-existing conditions to obtain workers comp benefits or jobs, a labor official charges.

See **Funds** *on page 49*

Second injury funds grow

Six funds with the largest annual expenditures in 1993 have grown significantly since 1985.

State	1993	1985
	(in millions of dollars)	
Kentucky	$112.2	$54.9
New York	108.8	42.0
Connecticut	90.0	15.2
Florida	76.9	21.0
South Carolina	46.7	12.3
Michigan	40.9	14.6

Source: Roger J. Thompson

Juries may favor big business as plaintiff

By GAVIN SOUTER

NEW YORK—Policyholders in coverage disputes with insurers should change their mind-set and think more like plaintiffs rather than defendants, policyholder attorneys advise.

Large corporations are too used to fighting off lawsuits rather than instigating them, they say.

But, policyholders taking the offensive will find that juries are more sympathetic to them than insurers in coverage disputes, according to the attorneys.

Policyholders also can help their own cause by carefully preparing for the trial, they add.

These were among the tips for commercial policyholders facing a coverage dispute with insurers and were offered by a panel of policyholder attorneys during a recent seminar sponsored by Law Journal Seminars-Press in New York last month.

Policyholders going to court must select jurors differently than the way they select juries in cases they are defending, advised Ronald M. Oster, a partner at Paul, Hastings, Janofsky & Walker in Los Angeles.

Policyholders often fear that jury members will be predisposed against large corporations, particularly in pollution cases, he noted.

"Large corporations are too used to being defendants and that's the way they pick the jury. I say to them, 'They may not like you but they will like the other

See **Dispute** *on page 48*

Peering into the minds of the jurors

Here's what weighs on the minds of jurors most as they try to reach verdicts in coverage disputes.

- Character of the policyholder corporation
- Behavior of the parties in the events leading to the dispute
- Motivation for the behavior of the parties
- Consequences of the verdict
- What jurors perceive as the expected verdict

Source: DecisionQuest

GRAPHIC BY JOHN HALL

Using technology to ease benefits administration

By CHRISTINE MANY

NEW YORK—When she first arrived at Nabisco Inc. three years ago as senior director of employee benefits, Karen Manning was not pleased with the company's benefits administration.

"Everyone in the benefits administration group was highly specialized. People only covered certain letters of the alphabet," she said. "If I called somebody and they didn't deal with A-M, even if they knew the answer to my question, they would transfer me to somebody else.

"They actually maintained a tickler file and had to look in card files to adjust people's benefits. And pensions were calculated manually."

THE ANNUAL Benefits Symposium

Since then, Ms. Manning has transformed the company's system into a much more efficient, cost-effective and reliable one. Her tools include: software that answers questions about the benefits plan, a voice-response system to provide account information, computerized databases of plan enrollees, and a pension management system that automatically calculates pensions.

With the help of emerging technologies, Ms. Manning and other employee benefits administrators across the country have been re-

See **EBIS** *on page 42*

High-tech alliance seeks California tort reform

D&O rate increases drive efforts to limit shareholder suits

By ROBERTO CENICEROS

Business leaders in the Silicon Valley—where premium increases for directors and officers liability insurance have been among the steepest in the nation—are fighting back by contributing money and leadership to a California alliance seeking legislation to curb shareholder class-action suits.

The Alliance to Revitalize California has raised more than $1.5 million in hopes of collecting hundreds of thousands of signatures needed to include three initiatives in a primary election scheduled for March 26, 1996. One initiative is a "loser pays" measure that would apply to shareholder lawsuits.

Fifty percent of the Silicon Valley's companies have been sued in shareholder class-action suits, compared with 12.5% of the companies on the New York Stock Exchange, said Michael Johnson, the Alliance's executive director in Los Angeles and a former analyst for Ralph Nader's Public Citizen advocacy group.

The litigation often translates to higher D&O premiums for the Silicon Valley's high-tech companies. While D&O rates for most U.S. companies rose about 4⅓ in 1994, rates for high-tech firms rose about 50% (*BI*, March 6).

"On average, the prices over the last two years have more than doubled for that sector," said Philip N. Norton, a consultant in the Chicago office of Watson Wyatt Worldwide. "There's no question the insurance companies have felt the pinch" from shareholder litigation against high-tech firms, he said.

Among the Silicon Valley business leaders who have contributed finances and leadership to the Alliance is Al Shugart, chairman and chief executive officer of Seagate Technology Inc. in Scotts Valley, Calif.

In a statement released by the Alliance, Mr. Shugart said, "The laws governing shareholder lawsuits desperately need to be reformed. They have made innovative risk-taking companies like Seagate the favorite extortion targets of smart lawyers looking to make a bundle of easy cash. A good way to stop this practice would be to force plaintiffs or their lawyers to take responsibility for the costs their meritless lawsuits impose on target companies."

The Alliance, which has 30 individual members, was organized by: Voter Revolt, the consumer group that sponsored Proposition 103; insurance industry critic Andrew Tobias; and Silicon Valley businessman Tom Proulx, a co-founder of Intuit Inc. in Menlo Park, Calif.

Their "Shareholder Litigation Reform Initiative" would require the losing party in any shareholder derivative or securities class action

Plaintiffs should be responsible for the costs their meritless lawsuits impose on companies, says Al Shugart.

brought under state law to pay the winner's attorneys fees and other litigation expenses. It would not apply to lawsuits filed by individuals.

The Alliance's "Lawyer Contingent Fee Reduction Initiative" would cap plaintiffs attorneys' contingency fees when defendants make early settlement offers, giving claimants an incentive to settle cases quickly. If a defendant makes a settlement offer within 60 days, the fee charged by the injured party's attorney would not exceed 15% of the settlement.

Members of the Alliance also are sponsoring a no-fault auto insurance initiative.

The Alliance's main opposition has come from the Consumer Attorneys of California, formerly the California Trial Lawyers Assn. The attorneys are sponsoring a rival measure that would nullify the Alliance's fee cap. The attorney's proposed "Frivolous Lawsuit Limitation Act" would: prohibit excessive fees; impose sanctions against lawyers engaging in frivolous litigation; and bar new restrictions on the right of clients and attorneys to negotiate fees.

The attorneys also have received about $500,000 and another $1 million in pledges from members of their association. The groups said monies collected so far will go toward gathering the 423,269 valid signatures necessary to qualify each initiative on the ballot. BI

Just when you thought no one was listening anymore...

...along comes First State. We're the antidote to all those "non-receivers" who plug up their ears whenever they hear mention of a problem that doesn't conform to the norm, or a challenge that's a step outside the ordinary. At the "new" First State, you'll find us beaming right in on coverages of all descriptions. And we think you'll like the way our local managers are able to operate in clear air – no static or technical difficulties. Do you have an idea that's looking for a sympathetic ear? Beam us up.

First State Management Group, Inc.
Pacific Insurance Co., Ltd.
Twin City Fire Insurance Co.

Atlanta Boston Burlington, NC Chicago Los Angeles New York San Francisco

An ITT Hartford Company

Williams joins editorial staff

CHICAGO—Eric J. Williams has joined the editorial staff of *Business Insurance* in Chicago as graphics editor.

He replaces Jeanne Bartels, who resigned.

Mr. Williams

Mr. Williams, 34, previously was assistant graphics editor for *Modern Healthcare*, a sister publication of *BI*, since 1992.

Prior to that, he was art director for *New Expression*, a news magazine for Chicago teens, and design director for *Renaissance*, a newspaper for senior citizens.

Mr. Williams received a master of journalism degree from Northwestern University's Medill School of Journalism in Evanston, Ill. He holds bachelor of arts degrees in communication design and mass media communications from the University of Illinois at Chicago.

He can be reached at 312-649-5485.

IBM won't change Lotus' benefit culture

ARMONK, N.Y.—Employees of IBM and Lotus Development Corp. will continue to receive their existing employee benefit packages after Big Blue acquires the software producer.

"Our intent is to allow Lotus employees to keep the Lotus benefit package and IBM's benefits would also remain intact," a spokesman for Armonk, N.Y.-based International Business Machines said.

IBM currently offers employees a fairly standard benefit package, including health and dental care and a retirement savings plan.

Like IBM, Lotus offers employees health and dental care and a savings plan. However, the Cambridge, Mass.-based company also extends these benefits to same-sex domestic partners, while IBM does not.

Benefit Beat

"We have a reputation for being a very open workplace," a Lotus spokesman commented. "We have a culture where individuality, diversity and creativity are at the core. And the benefits are definitely a reflection of that culture."

IBM and Lotus signed the acquisition agreement June 11 in New York.

"Oftentimes, when a big company acquires a littler one, the big company will insist that the little company's benefits be changed" or merged into theirs, noted Henry Saveth, a principal in the New York office of A. Foster Higgins & Co. Inc.

But, this case is different because "IBM wants to be careful not to upset key programmers," he said. IBM wants "to keep the Lotus people happy."

Mr. Saveth added that he does not expect the benefit departments of the two companies to be combined, "at least for an initial period of years." Following the acquisition, Lotus' headquarters will remain in Cambridge.

—By Deborah Shalowitz Cowans

Disease management

Disease prevention and self-care medical programs could reduce the demand for medical services and cut employers' health care costs, a study of the medical claims of 72,000 Americans indicates.

The study of participants in the Wisconsin Education Assn. Insurance Group health plan indicates that every dollar spent on such demand-management programs translated into a savings of up to $4.75 in outpatient medical costs.

A scaled-down version of the program produced a savings of $2.40 for every dollar invested in the programs, according to the study by William M. Mercer Inc. and The Center for Corporate Health.

Demand-management programs aim to reduce health care expenses through increased education and by empowering individuals to practice healthy habits and to participate more in health care decisions.

The demand-management programs employed by WEA, collectively called "Taking Care," were designed and administered by CCH. The programs consist of education about treating minor medical problems with home therapy and include health newsletters and telephone counseling by nurses.

"We started the plan as an experiment but made it standard by virtue of what we found," said Al Jacobs, president of the Madison, Wis.-based WEA.

The WEA implemented the plan as an experiment in September 1993, and the measurements were recorded from data acquired through the following August. The plan will be implemented for Wisconsin school districts in September.

The survey results were generated by dividing the WEA participants into three groups of approximately 24,000 people. The first group consisted of participants who received a medical self-care book and were given access to a telephone-based nurse line service and maternal health education materials.

The second group received only the book and the monthly newsletter. The third group—a control group—did not participate in the program.

Use of medical services by the first two groups grew at a far lower rate compared to the control group. Furthermore, the group that received access to the nurse telephone line service accounted for the greatest savings, generating the $4.75 savings per dollar invested compared with the $2.40 per dollar savings yielded by the more modest program.

The Center of Corporate Health, based in Oakton, Va., is a wholly owned subsidiary of The MetraHealth Cos. Inc.

To obtain an abstract of the survey, contact James Otis at the Center for Corporate Health at 703-218-8417.

—By Lee Velker

Retirement savings

About seven in 10 Americans believe they are not saving enough for retirement, a recent survey finds.

The survey of 2,086 randomly selected Americans, conducted by Chicago-based Kemper Financial Services Inc. and Roper-Starch Worldwide, also revealed a preference for 401(k) and 403(b) plans as forms of retirement savings.

Some 65% of those surveyed between the ages of 30 and 49, and 75% of those in their twenties acknowledged they are not saving enough. Reasons for the lack of savings included: paying off a mortgage, reducing credit card debt and the costs of raising children.

As for how money is being saved, 52% of Americans preferred company-sponsored plans, such as 401(k) plans; followed by savings accounts; mutual funds; life insurance; and IRA and Keogh accounts.

"Start saving early and take advantage of company-sponsored savings plans," said most retirees surveyed.

A majority of those under 40 also believe Social Security will not be a part of their retirement funds. They fear the funds will be unavailable when they reach retirement age.

Nearly six of 10 working Americans surveyed believed they will need to work to some extent during retirement, but the same number of respondents said they want to continue working regardless of financial need.

Copies of the survey are not available to the public.

—By Lee Velker

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Opinions

Quality is an ongoing journey

KEEPING EMPLOYEES satisfied with HMOs is the name of the game.

As we report this week, new research shows that employees are overwhelmingly satisfied with HMOs, even more so than preferred provider organizations and point-of-service plans. That is great news for employers, because health maintenance organizations also generally provide lower-cost care than other health plans.

However, there is no guarantee that employees will always feel that way about HMOs.

It is vital for HMOs and employers to work together to improve the quality of the health care delivery system. Participation in studies like the Chicago Health Plan Value Project can help health plans increase market share. More importantly, employers' demand for such information will not diminish.

We think that managed care plans can do more to ensure quality care—and continued satisfaction. At the same time, they'll have to prove that quality not only to employers and employees, but also to doctors and politicians who increasingly are pushing anti-managed care legislation in several states.

The new survey by a group of leading Chicago-area employers and several major health plans finds that HMOs generally outperformed other types of plans in terms of higher employee satisfaction and lower costs (see story, page 3).

The survey also found that employees generally are satisfied with the quality of services, ease of use and the selection of physicians available in HMOs, including primary care physicians and specialists.

Those findings echo a groundbreaking HMO satisfaction survey conducted by Xerox Corp., GTE Corp. and Digital Equipment Corp. (*BI*, July 11, 1994).

This should be particularly good news for employers that have not introduced an HMO for fear that employees would be unhappy with a heavily managed plan.

But HMOs must continue to make improvements if high levels of employee satisfaction are to be maintained.

For example, while many HMOs are making strides

in their reporting capabilities, much of their reporting has centered on utilization, such as admission rates and lengths of stay. The plans must collect more data about clinical quality and patient outcomes.

HMOs also must be wary of practices that could spark a consumer backlash and erode the gains they have made in satisfaction. An example is the current practice by many plans of enforcing a 24-hour maternity limit on hospitalization after normal deliveries. To many consumers—and legislators—the restriction seems arbitrary and driven purely by a profit motive.

Indeed, several states are enacting legislation that could undo some HMO cost containment. These measures range from any-willing-provider legislation to proposed mandates on extended hospital stays after deliveries.

HMOs also face a raft of litigation over denial of care for certain experimental treatments.

Managed care firms have to clear these and other hurdles to ensure that high satisfaction continues.

Letters

Interest in federal regulation is questioned

To the editor: I'd like to make a comment or two on the *Perspective* piece, "Luring Risk Capital Onshore," by Charles A. McCrann (*BI*, June 5).

For those readers with a dictionary nearby, you may want to look up "self-serving," "parochial," and maybe some reference to Ayn Rand's "enlightened self-interest" as you review Mr. McCrann's article.

Two criticisms. The use of the phrase "market driven solvency" affronts me a bit when I realize that one of the industry's best kept secrets is the degree of involvement that Marsh & McLennan Inc., Mr. McCrann's employer, had with the Mission, Integrity, Ideal Mutual and Weavers insolvencies after the flags began to go up. Better he use the phrase "market-driven insolvency."

The second criticism would be the problem I have in squaring "underregulated alien markets" with "penalties for anyone who helps foreign competitors transact business." If alien means no U.S. licensure and foreign means domestic non-admitted, which I think is the currently acceptable jargon, then there is no logic or linearity in his observation. If he is using the words interchangeably, then he is contradicting himself.

In any event, I have to smile when I reflect on the fact that the "hydra-headed relic" that is state regulation wasn't originally designed, as I remember, to allow brokers to structure the distribution system or the efficacy of solvency studies.

Bob Angle
Westport, Conn.

Business Insurance welcomes letters to the editor. This section is intended to be a forum for readers' opinions and comments. We reserve the right to edit letters for clarity or space. We will not publish unsigned letters. Please send your letters to Letters to the Editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. Fax: 312-280-3174.

Insurers' stance openly anti-business

To the editor: Retired American Re claims executive, William N. Edwards, condemns *Business Insurance* for a "surreptitious anti-business bias," in his letter headlined "Flawed Legal System Drove GM to Offer Settlement," in the May 22 issue.

Mr. Edwards' blast against *BI* stands in interesting contrast to the statement made by the former president of the Alliance of American Insurers, Franklin W. Nutter, that "(t)he liability system is fuel for the insurance engine."

Who is anti-business?

Mr. Edwards should look in a mirror. The former head of claims at AIG, Patrick Magarick, sings praise of the use of the Rackateer Influenced and Corrupt Organizations Act against automobile manufacturers who make "killing machines."

It is a good bet that AIG sells directors and officers insurance to these killers.

Until very recently, the insurance industry was proud of its role as "the banker of the tort system." For the past 50 years, the insurance industry has profited from a symbiotic relationship with claimants' lawyers.

The insurance industry sells liability insurance to cover tort liability and then denies that the insurance policies cover tortfeasors.

Mr. Edwards is not "surreptitious" in his anti-business stance; he is openly anti-business.

Eugene R. Anderson
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Published weekly at 740 Rush St., Chicago, Ill. 60611-2590, Telex 687 241, Fax 312/280-3174, Cable CRAINCOM. Offices: 220 E. 42nd St., New York, N.Y. 10017-5806, Fax 212/210-0704, CRAIN CCM NYK; Suite 814, National Press Building, Washington, D.C. 20045-1801 Fax 202/638-3155; 6500 Wilshire Bvd., Suite 2300 Los Angeles, Calif. 90048-4947, Fax 213/655-8157; 540 Latimer Circle, Campbell, Calif. 95008, Fax 408/379-3257; Cowcross Court, 2nd Floor, 75-77 Cowcross St. London EC1M 6BF, England, Fax 71/608/1173. $4 a copy. $80 a year in U.S. $100 in Canada and Mexico (includes GST). All other countries $200/yr (includes expedited air delivery). DAVE KELLEY, circulation manager. Four weeks' notice required for change of address. Send subscription correspondence to Circulation Department, Business Insurance, 965 E. Jefferson Ave., Detroit, Mich., 48207-3185 or phone 800-678-9595 or 313-446-0450, Fax 313/446-6777. Microfilm copies are available from University Microfilms, 300 Zeeb Road, Ann Arbor, Mich. 43013. Microfiche copies available: Bell & Howell, Micro Photo Division, Old Mansfield Road, Wooster, Ohio 44691. Portions of the editorial content of this issue are available for reprint or reproduction in other media. For information and rates to reproduce in general circulation media, contact JOSEPH P. HANLEY, Crain News Service, 220 E. 42nd St., New York, N.Y. 10017-5806 212-254-0890. For reprints or reprint permission contact KAREN BROWN TUCKER, Business Insurance, 740 N. Rush St., Chicago, Il. 60611-2590, 312-649-5319. Fax 312/280-3174.

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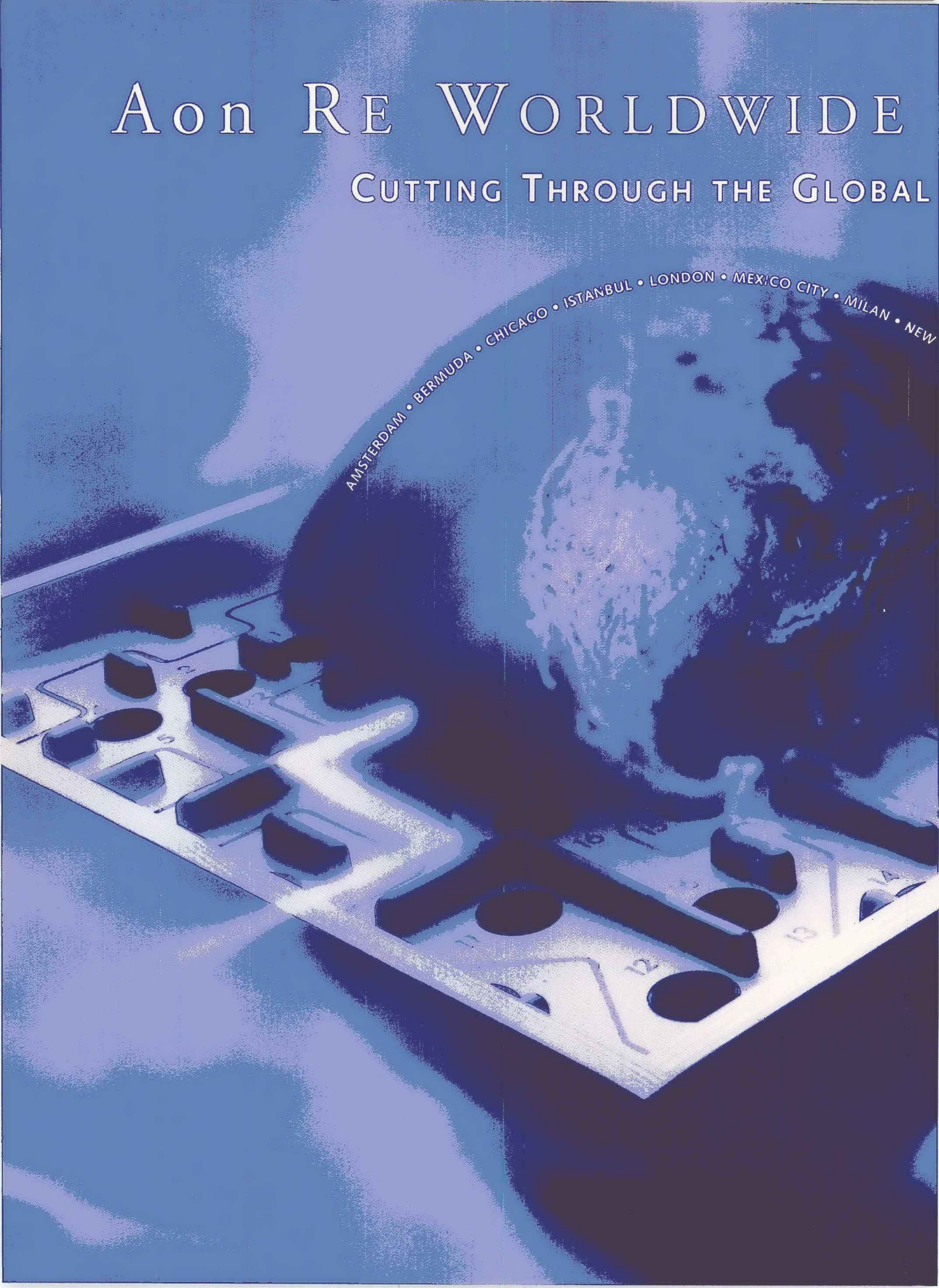
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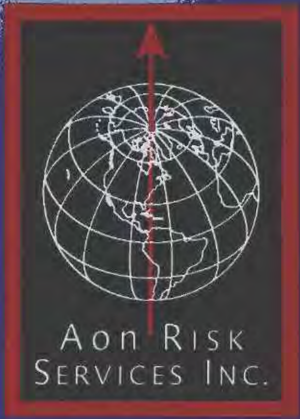

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Brokers

Continued from page 1

"Those willing to change markets are typically seeing rate decreases of 10% to 12%," said James Costner, chairman of Willis Corroon Group's property interest group in Nashville, Tenn.

However, "if you've got earthquake involved, then it's a horse of a different hue," observed Mike Enfield, chairman and chief executive officer of Metro/Risk Inc. Insurance Brokers in San Francisco.

"The issue is simply one of an impaired market capacity now also being a distressed market," he explained.

Companies that renewed earlier have already consumed most of the available capacity, leaving slim pickings for those renewing at midyear, he said.

Mark Pinkowski, president and CEO of Rollins Hudig Hall of Sacramento Inc., agreed, noting that there seems to be less capacity for earthquake and windstorm, especially as the year wears on.

Before the Northridge quake, "you could put together $300 million" in limits over the phone, said J&H's Ms. O'Donnell. Now, lining up $150 million in coverage is a real struggle, she said.

"By the time you are done answering all (insurers') questions, you'd be lucky to get $100 million in coverage," said Jeff McKinley, managing director at Jardine Special Risks, a unit of JIB Group P.L.C. in San Francisco.

Mr. McKinley notes that insurers are looking at all kinds of factors in underwriting property risks in earthquake zones. "They are underwriting very carefully."

In some cases, underwriters are excluding coverage on property schedules for facilities in the Northridge quake-affected area, said Jim Barnes, chairman and CEO of Sherwood Insurance Services, a surplus and specialty lines broker in San Francisco.

"We're constantly looking at schedules of 40 or 50 buildings where a location sticks out like a sore thumb, and the underwriters will exclude it," he said.

But most exclusions are for specific reasons, said Mike Hudson, senior vp and property manager at Johnson & Higgins of California Inc. in Los Angeles. For example, an underwriter might refuse to cover tilt-up construction or pre-1973 construction, both of which fared poorly in the 1994 Northridge quake.

Some insurers also are excluding post-quake water damage caused by overhead sprinklers triggered by tremors, according to Rod Okimoto, executive vp of Rollins Technology Brokers in San Francisco.

Meanwhile, earthquake deductibles for commercial properties, which previously had averaged about 5% of insured value, are now as high as 15%, brokers say.

"A year ago, there was at least a chance of negotiating a deductible cap. This year, the deductible almost certainly will be uncapped," Ms. O'Donnell said.

And pricing is up anywhere from 15% to 200% over last year, brokers say.

Many policyholders in catastrophe-exposed areas, though, will not—or cannot—pay that price.

"We have seen a dramatic drop in the amount of earthquake coverage that is being purchased" as a result of elevated deductibles, cost increases and the limited amount of coverage available, said Mr. Enfield of Metro/Risk.

In some cases, cash-strapped policyholders are paying the same premiums as last year but for dramatically lower coverage limits.

For example, "if they paid $500,000 for a $50 million cover last year, maybe they'll get $25 million this year," said Mr. Barnes of Sherwood.

But, he added, "if it gets too onerous, say they can only get $10 million in cover for $500,000, then they'll go bare."

Hurricane and windstorm risks are finding it an almost equally difficult property renewal season, brokers say.

Prices for "wind-driven accounts have been up since Andrew and continue to stay up," said J&H's Mr. Hudson. It's "almost as difficult to obtain as Cal quake."

Even worse is a policyholder with both earthquake and windstorm exposures, he said. "A program that has significant quake and windstorm exposures in it is a very difficult placement."

And hurricane risks, which formerly had flat-dollar deductibles, now are being charged percentage deductibles, such as those applied to earthquake coverage.

"We're seeing them in the area of 2%, 2½% to 5%" of insured value, Mr. Barnes said.

Primarily, the capacity available for U.S. catastrophe risks, especially earthquake, has been domestic, with foreign insurers sticking to reinsurance, he said.

The London market, though, still is covering larger property risks, usually providing cover in the primary layers where they can get a better handle on their probable maximum losses, he said.

The tight earthquake and windstorm markets together have had a negative impact on global programs, said Rollins' Mr. Okimoto. "Most of our clients have cut back on what they can afford to buy."

In some cases, insurers will write large risks only if other insurers are involved, he said.

"With a semiconductor wafer fabrication facility, for example, we have $1 billion in one building. What we're starting to see is that one insurance carrier is not willing to take all of that risk," he said. As a result, insurers are "teaming up" to provide coverage for large property risks, he said.

At least two other property lines also are experiencing some rough spots: High-tech and highly protected risks.

The rise in theft and/or hijacking of high-technology product shipments has caused tightening in the cargo insurance market for these products, Mr. Okimoto said.

One insurer, for example, has begun sending high-tech policyholders letters projecting pricing to increase at least 25% at renewal, he said.

HPR insurers also have been pressing for rate hikes averaging 20% to 25% following heavy losses in 1994, brokers say (*BI*, May 22).

But, through negotiations, some buyers have been able to get insurers to slice rate increases by roughly half, said Tom Spinner,

See **Brokers** *on page 16*

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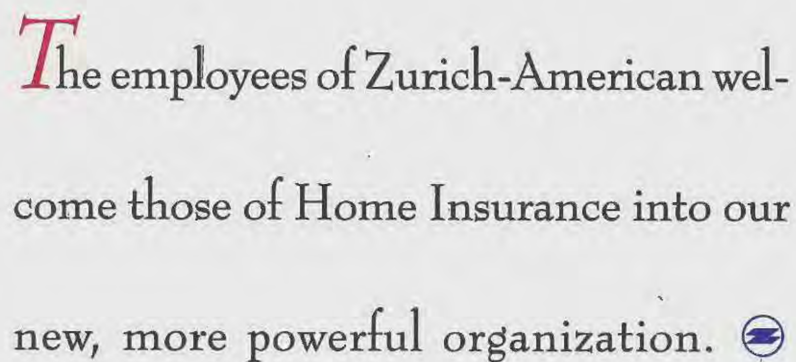

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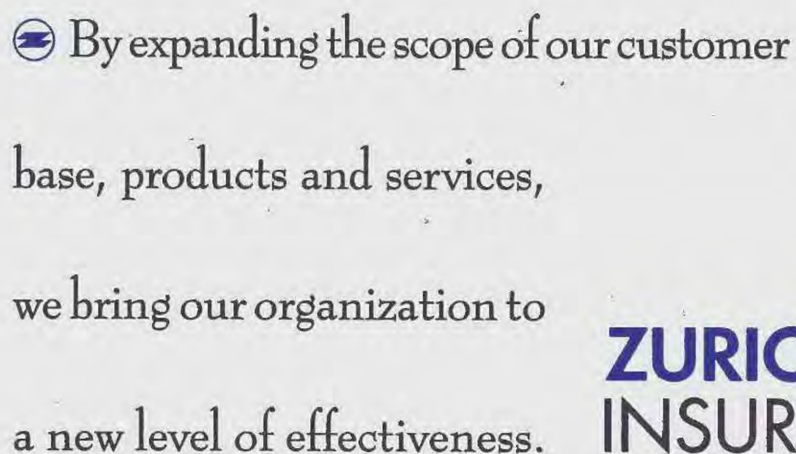

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Brokers

Continued from page 12

an executive vp with Tri-City Brokerage Inc. in Edison, N.J.

In contrast, the general liability market, which was soft when the year began, is getting even softer.

After insurers announced their generally favorable 1994 financial results (*BI*, March 20), the momentum to cut rates accelerated.

"You could feel it week by week. There were more phone calls and visits from underwriters and more capacity became available," said Eric Hein, president and chief operating officer for Willis Corroon Inc. of Maryland in Hunt Valley, Md.

For companies willing to change insurers, general liability rates are falling in the range of 5% to 10%, while those remaining with the same insurer can expect rates to remain flat or decline about 5%.

"Things are very good for our customers right now and should remain so as long as insurers continue to report excellent results and there is no sharp downturn in the economy," Mr. Hein said. "Just when you think the market can't get any lower, it does." As an example, he cited the case of a large transportation company whose rates have fallen during each of the last five years even though the risk is the same.

"Insurance buyers can feast at the banquet," Mr. Hein said.

For most professional liability lines, rates will be down 10% to 20%, said Jardine's Mr. McKinley.

Some professionals, though, are seeing less favorable renewals.

Coverage continues to be tight for large accounting firms that have had big claims in recent years, notes John O'Sullivan, a managing director with Marsh & McLennan Cos. Inc. in New York.

And, in Florida, the medical malpractice market is very difficult for obstetricians and gynecologists, said Charles Fiske, group broking director with Sedgwick James Inc. in Memphis, Tenn.

The once non-existent environmental impairment liability market also is quite competitive.

As EIL coverages become more comprehensive and premiums fall, the only logical conclusion is that "the environmental market is soft," observed John Theiss, director of environmental risk management services at Sedgwick James of California Inc. in Los Angeles.

And insurers are beginning to address many of the regulatory-driven coverage needs that policyholders face now, such as the 1992 Securities and Exchange Commission bulletin that requires all publicly traded companies to identify their environmental exposures by specific site, estimating the cleanup costs of each.

By combining self-funded annuities and some finite risk transfer, "we can, in fact, model a program that would allow for these kinds of environmental liabilities to be moved off balance sheet," Mr. Theiss said.

The market for directors and officers liability insurance also is "highly competitive," noted Jennifer J. McElroy, president of financial services with Minet Inc. in New York. When competition is threatened or introduced, D&O rates can fall as much as 20%, she said.

At the same time, several major insurers writing D&O policies are increasing their limits, typically by $5 million to $10 million.

D&O underwriters also are improving policy terms. For example, coverage to indemnify directors and officers if they are sued for sex or racial discrimination has become a "virtual throw-in" item, she said.

"It is going to take a major insurer or reinsurer to have significant financial problems, or an explosion of claims, for the D&O market" to tighten, she added.

Another bright spot for buyers is workers comp, which is competitive, especially in California.

"The workers compensation market has become incredibly wild" since the start of the year when an open-rating law went into effect in California, said Jardine's Mr. McKinley. "Rates have dramatically come down," he said, adding that a company with good experience that was paying $1 million in workers comp premiums a year ago now may be seeing quotes in the $500,000 range.

Because California's workers comp market has become so competitive, more employers that self-fund workers comp are considering a return to the conventional market, which could be a boon to brokers.

Elsewhere, workers comp insurers' improved returns mean more favorable terms for employers (*BI*, April 17). BI

Insurers

Continued from page 1

be the survivors in the marketplace," said John F. Donahue, senior vp of ITT Hartford Insurance Group in Hartford, Conn. "We plan to be a survivor."

Outside of some highly protected risk and property lines exposed to catastrophes, insurers reported rate increases of 5% at the most. Some reported rate decreases of as much as 10%.

Rate filings approved by the California Department of Insurance in May and June show a greater range.

Those filings range from a 24.7% reduction in commercial general liability lines approved for four units of The St. Paul Cos. Inc. to a 12% increase in the same line obtained by Aetna Casualty & Surety Co.

CIGNA Insurance Co. received permission to charge 60% more for commercial multiperil business, but Federated Mutual Insurance Co.'s rates for that line could decrease by 11.2%.

Rates for some lines of personal quake insurance could double.

Increased competition, despite consolidation, is blamed for the continuing soft market.

"There's more competition now than there was six months ago," said Joseph Basta, president of commercial insurance for Zurich-American Insurance Group in Schaumburg, Ill. "At best, renewal premiums are flat to 10% below where they were."

Consolidations, including the takeover of Home Holdings Inc. by Zurich-American parent Zurich Insurance Group, have not yet had an impact on the market.

"It's still too early," Mr. Basta said. "We are still going through the consolidation and getting our arms around it and our people blended."

In the final deal, approved earlier this month by seven state regulators, Zurich has pledged $1.59 billion if Home's assets are exhausted before all claims are paid (*BI*, May 22).

"The expectation was that there would be a reduction in capacity, but for the most part there is additional capacity and additional capital," said Ed Hancock, vp of underwriting for Employers Insurance of Wausau in Wausau, Wis. Zurich's pledge amounts to more than "$1 billion of standby capital," he noted.

"The consolidation has been more of a result of market conditions than having an impact on market conditions," said Jim Black, executive vp and chief operating officer for Protection Mutual Insurance Co. in Park Ridge, Ill. "The market has been quite competitive and has forced certain companies to either refocus their efforts or merge and combine."

"It's too early to tell whether available capacity is shrinking, but it's

See **Insurers** *on next page*

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Insurers

Continued from previous page

my sense that it's not," said John P. Cavoores, chief underwriting officer of Chubb Corp. in Warren, N.J.

And insurers aren't the only ones consolidating. Brokers and buyers "are consolidating the number of insurers they'll do business with for expense and solvency reasons," he said.

Other insurer executives expect the trend to continue.

"By the year 2000, there will certainly be only a handful of significant players on national accounts," said Edward G. Troy, executive vp of national markets for Liberty Mutual Group in Boston.

Now, however, most insurers report record levels of competition.

"Industry surplus is still over $150 billion, unlike in the mid-'80s when there was significant deterioration of surplus," Mr. Cavoores said. "New investors are coming into the industry, and that breeds a competitive environment."

"What competition existed yesterday and today will most likely exist tomorrow at the same level," ITT Hartford's Mr. Donahue said.

"In certain segments, certain competitors are retrenching and re-underwriting, so that's creating a lot of opportunities on new business," Protection Mutual's Mr. Black said. At the same time, more competition is being generated by new entrants into the HPR marketplace, including some foreign insurers.

"It's competitive and tough," said Michael McIntyre, senior vp of Allendale Mutual Insurance Co. in Johnston, R.I. "We have been successful in getting rate increases and changes in terms and conditions on those risks we felt needed them. Where we don't see eye to eye, we might have to shake hands" and let the business go.

Although priced individually, some risks may see increases in the "high double-digits," Mr. McIntyre said.

While more than a dozen insurers write national account business, Liberty Mutual doesn't consider most of them competitors, Mr. Troy said.

"The risk management community has finally weeded out those who can really do the job for them and not just compete on a small part of their business," he said. The insurer competes more on the strength of its loss control, fraud prevention, claims and litigation management, information services and managed care services than on price, he added.

"Getting the cheapest price is a component, but larger risks are more focused on minimizing risk. They want to take the pain out of the renewal process," said Chubb's Mr. Cavoores.

"Larger customers are constantly looking for information on solvency, stability, who is opening and closing branches and who has the global capacity. And insurance companies are asking questions of their reinsurers," he said.

"Security has moved up to maybe the No. 1 issue," Mr. Donahue said. "Hartford is very secure and it has helped us to grow faster than the industry in the last two years."

Customers also are demanding risk-specific underwriting.

"We are seeing a drive by clients to be more specific on rating and pricing to reflect not only their account experience but even by location of their account," said Joseph P. Roth, chief operating officer of Arkwright Mutual Insurance Co. in Waltham, Mass.

To survive, insurers must get specific in the types of business they write.

Before the turn of the century, insurers' strategy will be "focus," in whatever area they chose: line of business, type of risk, size or geographic location of risk, Royal's Mr. McDonald said.

"If you go back 30 years and look at the monoliths that existed and controlled the marketplace, they don't exist now," he said. "They've merged, been bought out or are rethinking and re-strategizing. Certainly it's something Royal had to do in the late '80s."

"I don't think we're going to see a return to the cyclical business we knew in the '50s, '60s, '70s and early '80s," he said. "Personal lines, standard commercial, large commercial and specialty lines are four areas and you need to look at each one differently."

"Due to the globalization of the industry, the historic cycles are no more," Protection Mutual's Mr. Black said. "We all need to figure out how to operate in the market that exists rather than wait for it to change."

"We're projecting this marketplace will go through 1996 and beyond. I'm not seeing any firming in reinsurance pricing, terms and conditions which affect our costs. If costs are stable, the prices we charge our customers should remain the same," Wausau's Mr. Hancock said.

And, in most lines of business, that's the case.

"Casualty is not getting softer, but it is competitive," Chubb's Mr. Cavoores said. "Every account is a different scenario. I'm not saying rates are down, but they're certainly not going up."

Prices are most competitive in light-hazard umbrella and in some primary liability coverages, ITT Hartford's Mr. Donahue said.

Some admitted insurers aggressively are writing excess casualty business that was previously in the surplus lines market, "a sign of how extreme things have gotten," Zurich's Mr. Basta said.

In general liability, automobile and excess liability, "rates are still coming down modestly—less than 10%," Mr. Hancock said.

Directors and officers liability insurance in particular is more competitive, Mr. Cavoores said.

Insurers are offering new coverages in the area, such as coverage that also protects the entity in the event of a shareholder suit.

"Insurers are trying to be more innovative in meeting the needs of their customers," such as entity coverage and multiyear, extended aggregate limits, he said.

One line of business in which insurers are happy to see rates fall is workers compensation.

"Workers comp has shown remarkable improvement in the past 18 months," Mr. Basta said. "A lot of carriers that were not overly active are becoming more active now because of improved results."

Property risks represent more of a mixed bag than casualty.

"The catastrophe peril market is firm, but move away from the catastrophe area and it's still very competitive," Mr. Donahue said.

"Because of experience in the last four to five years, that kind of capacity is not available if you want it for large amounts," Mr. Cavoores said. "We're beginning to see a slowdown even in the amount available in Bermuda."

"In HPR and excess property, rates are stable," Mr. Hancock said. "In Florida there appears to be some softening."

On the pollution front, most insurers are optimistic that the Republican Congress will reform Superfund this year.

"We're getting positive vibes from Washington. Producers realize we have to come together for a joint solution and begin the cleanup and stop going to the courtroom," Mr. Donahue said. BI

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A buyers market for ceding companies

Reinsurers pressured to cut rates, broaden coverage

By DOUGLAS McLEOD and MEG FLETCHER

Reinsurers report

Ceding insurers won't be working nights and weekends to finish midyear reinsurance renewals, as most are finding plenty of capacity for property and casualty coverages at stable or reduced rates.

After a year of relatively modest catastrophe losses, insurers with good loss experience and limited exposures are seeing price breaks of up to 15% on their cat renewals, reinsurance executives and brokers say.

The property per risk treaty market also remains competitive, while the casualty market continues to be bafflingly soft.

None of this is news to beleaguered reinsurer executives, who say they're doing their best to resist pressures to cut rates and broaden coverage.

"Pogo lives, there's no doubt about it," said Paul Ingrey, president of F&G Re Inc. in Morristown, N.J., referring to the comic strip character's line: "We have met the enemy, and they are us."

And ceding companies continue to cut back on the number of reinsurers they deal with, moving more business to the most financially secure reinsurers.

"The consolidation process that's going on in the primary and reinsurance industries is likely to continue," said William L. Munson, president and CEO of Mercantile & General Reinsurance Co. of America in Morristown, N.J. "The peripheral people are being squeezed out."

Lloyd's of London, in particular, is under closer examination than ever before, as ceding companies review the strength of individual syndicates before doing business with them.

"We really have to spend some amount of time justifying the use of Lloyd's, which we didn't have to do before," said Jacobus Van de Graaf, managing director and CEO of Towers Perrin Reinsurance, a reinsurance intermediary unit of Towers Perrin in Stamford, Conn.

Generally, though, reinsurance renewals are going easily and, in many cases, ahead of schedule.

"People are out earlier testing the market," attracted by the prospect of rate relief, said Lawrence S. Doyle, CEO of Global Capital Reinsurance Ltd., a Bermuda-based catastrophe reinsurer. "That's a change from the January renewal season, which was very much last-minute."

What hasn't changed since January is the moderate softening trend for many programs.

"There's certainly no meaningful tightening in the business," Mr. Munson observed.

"Unfortunately, it's more of the same," agreed John W. Smithson, chairman, president and CEO of PMA Reinsurance Corp. in Philadelphia.

After a period of relatively light catastrophe losses, ceding insurers are seeing rate reductions of 5% to 15% on cat programs, depending on loss experience and exposure, said Edmund Megna Jr., managing director with intermediary Guy Carpenter & Co. Inc. in New York.

"We are seeing a continuation of what we saw with the Jan. 1 renewals," when reductions ranged from 5% to 10%, Mr. Megna said.

"The market is still very competitive, more so than at the start of the year," agreed Robert F. O'Leary, president and chief operating officer of Willcox Inc. Reinsurance Intermediaries, the New York-based unit of Johnson & Higgins.

The competition is "positional," with reinsurers jockeying to increase their business with core clients and their producers, he said. This can put them at odds with brokers, who are focused on spreading a client's risk, Mr. O'Leary suggested, questioning whether increasing consolidation is in clients' best interests.

Capacity has been no problem for the vast majority of ceding companies, market sources agree.

Catastrophe capacity from reinsurers in Bermuda, London and the United States can hit $300 million to $350 million for a given program, with additional limits of up to $250 million possible for a defined region that is broken out of the program and underwritten separately, Mr. Megna said.

Reinsurers are trying to hang tough on pricing cat risks in California, the Southeastern United States and the East Coast, said F&G Re's Mr. Ingrey. "Everything else is heading down."

"Rates are still coming down by as much as 10% in areas that haven't had large losses or are outside the key zones of the East Coast and California," said Steven Bolland, senior vp at broker Gill & Roeser Inc. in New York. "There is a general feeling (among reinsurers) that they must ease up a bit in the face of competition."

"Everybody is generally experience-rated today," said Mr. Doyle, confirming that the largest reductions are going to ceding companies with good loss experience that operate in areas with low cat exposures.

"Reinsurers are starting to differentiate, as they should. They are reacting to exposures instead of" taking a wholesale approach, Guy Carpenter's Mr. Megna agreed.

The insurance industry's latest catastrophe—a series of severe storms that produced more than $1 billion in insured losses in Texas and Louisiana in April and May (*BI*, May 15)—didn't widely affect reinsurers and is not affecting midyear renewals, reinsurers report.

"I never thought I would see the day when you'd say, '1 billion dollars, that's not a big loss,'" observed Francis D. Ruyak, presi-

See **Reinsurers** *on next page*

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Reinsurers

Continued from page 20

dent of Constitution Reinsurance Corp. in New York.

Some ceding insurers—particularly larger companies—are increasing their retentions on cat programs and using the savings to buy additional coverage in upper layers, some reinsurers say.

By and large, though, intermediaries and reinsurers report no significant changes in ceding company retentions and no wide spread loosening of other cat program terms and conditions.

The market for property per risk programs, meanwhile, is hardly any tighter than for cat programs. Some ceding insurers are seeing slight increases where losses have hit covers, but most are renewing as is or with rate decreases, sources report.

"The pressure on pricing also extends into per risk," said Dan Eudy, executive vp with Hartford Re Co. in Hartford, Conn.

Softness in the property treaty market has led ceding insurers to seek other concessions on terms, like expansion of occurrence limits, said Carpenter's Mr. Megna.

As with cat covers, ceding insurers are asking reinsurers for a break for good loss experience, and reinsurers generally are responding, he said.

While the property market is soft, reinsurers may be more worried about the highly competitive casualty market.

"U.S. casualty is just totally in the tank," Mr. Ingrey complained, noting that even tough lines like directors and officers liability are attracting competition.

"There's still a soft market in the big-ticket commercial casualty area," agreed Peter Cheney, executive vp and chief financial officer of with National Reinsurance Corp. in Stamford, Conn.

"This is just a continuation of what we saw in January," Mr. Megna added. "There's plenty of capacity out there for casualty."

Some ceding companies are writing larger volumes of casualty risks while hoping to pay the same amount for reinsurance coverage, or even to pay a little less, noted Gill & Roeser's Mr. Bolland.

The heaviest pressure for rate reductions is coming in the upper layers of casualty programs, according to Mr. Eudy, who said that "when you get down into the working layers, you are relying more on experience."

With rates already low and in some cases falling further, ceding insurers also are demanding more liberal terms on casualty programs.

Some ceding companies, for example, are seeking to eliminate loss ratio caps on treaties covering tough lines of business, Mr. Eudy said. On casualty clash covers, ceding companies also have sought to increase the number of allowable reinstatements of limits and have tried to expand the time and location used to define an event.

Hartford Re is resisting these term extensions since they amount to a rate reduction and "the rates are already low enough," Mr. Eudy said.

The virtual across-the-board softening noted by several observers may not be helped by recent strengthening of the stock and bond markets, which in turn has strengthened insurers' and reinsurers' balance sheets, some note.

"Anyone who has a decent investment portfolio is riding a wave of big improvement in the bond market," Mr. Munson said. "If they didn't have a capital problem at the beginning of the year and didn't do anything stupid, they don't have a capital problem now."

As market conditions continue to soften, several other trends of the past few renewal seasons have continued, including business consolidation with fewer, heavily capitalized reinsurers.

"The consolidation has continued. There are fewer and fewer reinsurers, but the remaining companies are much better capitalized and want to write more business," Mr. Bolland said.

Many reinsurance buyers continue to pare their market lists, relying on larger reinsurers to take larger lines on their programs, PMA Re's Mr. Smithson said.

Even so, ceding insurers aren't taking all of the capacity a given reinsurer may offer, largely because there is still too much competition for the business, Mr. Smithson said.

"One of the signs of oversupply is authorizations (from reinsurers) being more than 100% (of the amount the ceding company seeks), and that is still the pattern," Mr. Smithson said.

The consolidation trend also continues among primary insurers, most notably with the Zurich Insurance Group acquisition of The Home Insurance Co.'s business and CNA Financial Corp.'s takeover of Continental Corp.

These moves could decrease the reinsurance market's premium volume, some observers say.

Zurich and CNA, for example, may rely less on the reinsurance market to support their business than The Home and Continental did.

Meanwhile, industry officials are watching to see whether Lloyd's will remain a leading reinsurance market or whether the uncertainties surrounding it will cause business to move elsewhere.

Since early June, Willcox has been "much more carefully scrutinizing Lloyd's security," said Mr. O'Leary. "Rather than rely on Lloyd's underwriters as a blanket market, we are evaluating the financial stability of individual syndicates on a stand-alone basis."

"We anticipate that most clients will decrease the percentage of their placements at Lloyd's" and there will be some shifting of coverages to U.S. and Bermuda-based reinsurers, he said.

However, Mr. O'Leary said he expects that Lloyd's still will be "a significant presence" and hopes it will remain so. BI

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Surplus lines risks remain competitive

Admitted market competing for environmental and trucking risks

By DAVE LENCKUS and DEBORAH SHALOWITZ COWANS

Risk managers with surplus lines risks who thought the market was as good as it gets are finding even better deals and are being wooed by the capacity-laden admitted market.

With retail brokers heavily shopping risks among wholesalers and many buyers weighing offers until the last minute, the surplus lines market—with some exceptions—is cutting rates 10% to 20% for casualty risks that admitted insurers have not attracted, brokers and insurers say. For especially appealing accounts, rate cuts have reached 40%.

Buyers jumping to the admitted market may find even better deals.

Environmental and trucking liability are two of the more surprising risks for which surplus lines insurers are competing. In many cases, they're losing the risks to the admitted market.

Many of the surplus line insurers that are not offering rate discounts are expanding coverage at no additional cost.

There are some exceptions, though. For example, on the casualty side, construction firms and real estate agents in many areas—especially California—face tougher renewals. On the property side, the earthquake market continues to tighten.

Overall, though, shopping of risks is "not only continuing, it's intensified," said Marcus Payne, president and chief operating officer of Dallas-based wholesaler Crump Insurance Services Inc., the largest unit of holding company Price Forbes North America.

"We've lost some big accounts when we thought we had them on the books," he said.

And "insureds are shopping smaller and smaller accounts," said Britton L. Glisson, president and chief operating officer of Essex Insurance Co. of Glen Allen, Va.

Accounts generating as little as $50,000 to $75,000 of annual premium are able to cut rates significantly, said Warren S. Stanley, president and chief executive officer of Swett & Crawford Group, the Los Angeles-based wholesale brokerage unit of The St. Paul Cos. Inc.

Risk managers and retail brokers also have begun shopping earlier to make sure they don't miss out on any deals, said Paul L. Genecki, senior vp of the Schinnerer Group Inc. of Chevy Chase, Md., the underwriting manager unit of Marsh & McLennan Cos. Inc.

Surplus lines report

There are plenty of deals to be struck, especially for general liability and umbrella liability coverage, market executives say. Rates for those risks are dropping 10% to 25%, wholesalers agree.

"On the casualty side today, the only rate increases are going to be principally generated by accounts that have had a major loss of some kind in the recent past," observed Kevin H. Kelley, president of Boston-based Lexington Insurance Co., a subsidiary of American International Group Inc.

Crump's Mr. Payne said he expected continued market softness this year, but not this soft.

Umbrella liability coverage looks like the most competitive line of business, he said. "It's moving out of the surplus lines market quickly."

Casualty rates are "almost like dealing with a nuclear half-life," quipped Kevin Brooks, president of General Star Indemnity Co., a surplus lines unit of General Re Corp. of Stamford, Conn. "You just keep cutting the premium by some percentage" so it keeps dropping but never reaches zero.

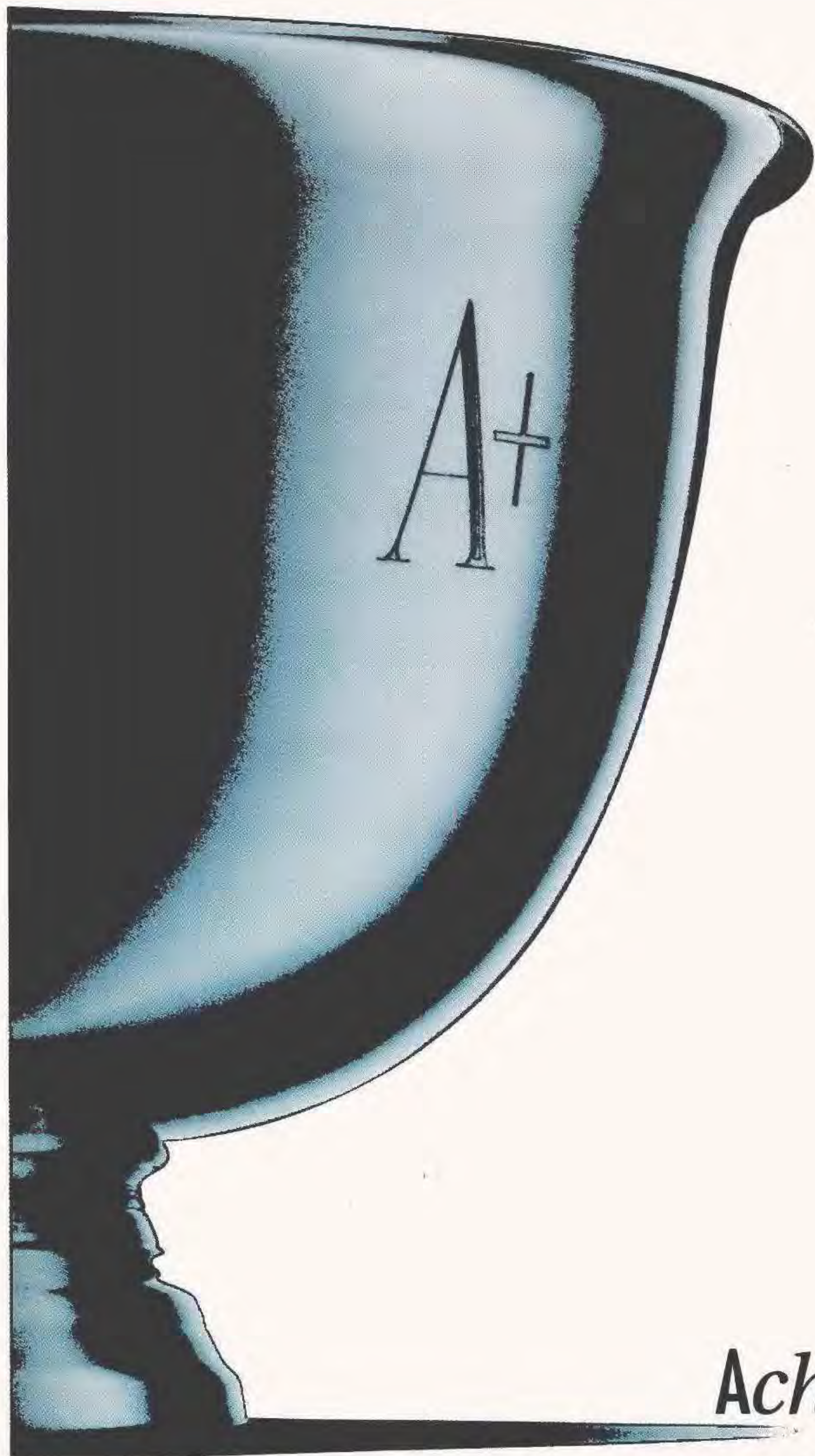
But the market may be too good for buyers, Mr. Stanley warned.

"From our perspective, the casualty market appears to be in a free fall," he said. "If the market continues to erode pricewise, it's our belief there will be a lot of casualties, both in the distribution system as well as with some of the underwriters."

But Seth Freudberg, president and CEO of United National Insurance Co. in Bala Cynwyd, Pa., disagrees. There is "some feeble downward price pressure but nothing that is terribly dramatic" on excess casualty business. "We are not seeing a free fall of rates in primary or excess casualty business."

Competition is heating up as well for companies with environmental risks. Rates are dropping 10% to 15% for cleanup contractors; treatment, storage and disposal plants; and environmental consultants, Mr. Payne said.

See **Surplus** *on page 26*



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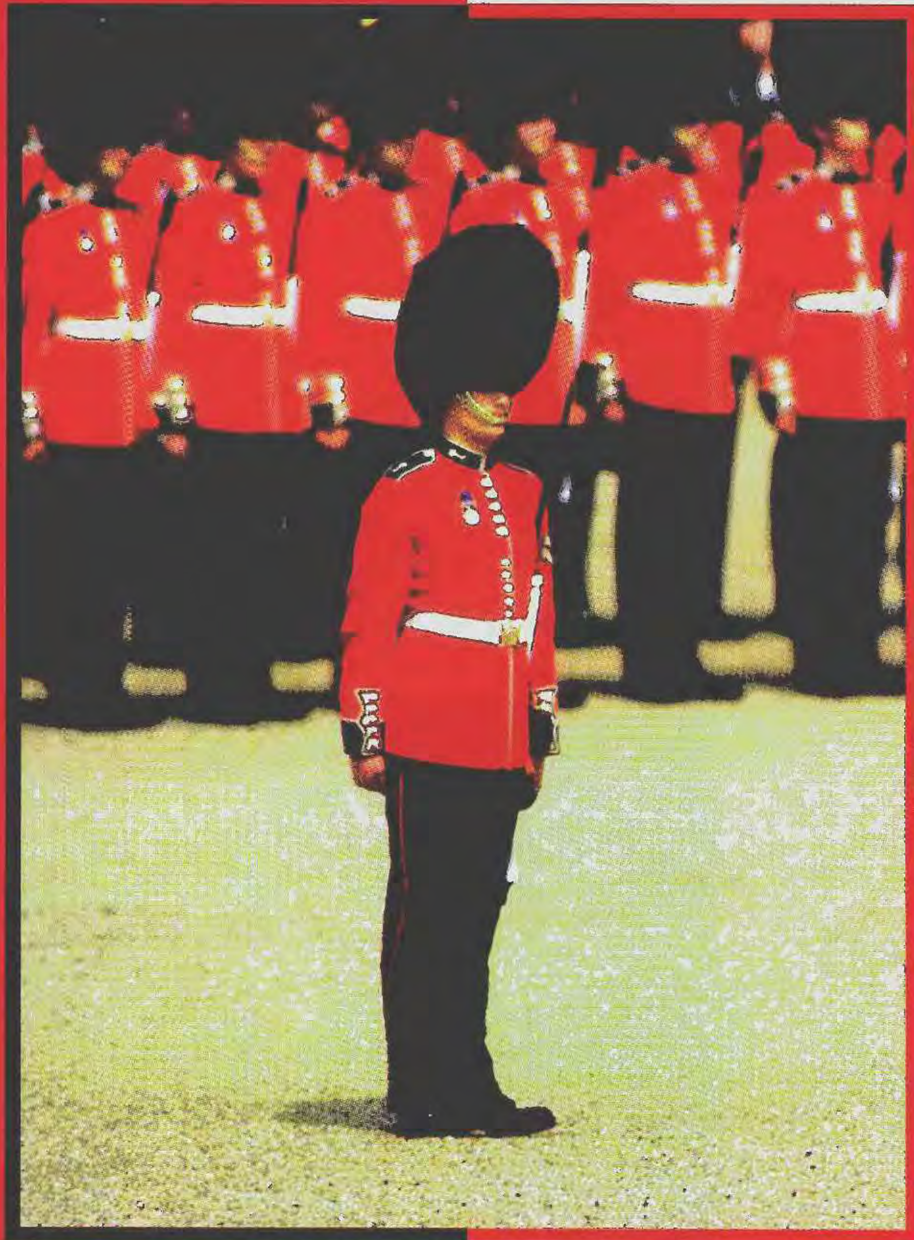

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Surplus

Continued from page 22

But, "it's still not a raging competitive market—it's not like umbrellas," said General Star's Mr. Brooks.

Insurers likewise are cutting rates for attorney professional liability coverage, Mr. Stanley said.

Even trucking liability business is moving to the standard market, though rate cuts for those buyers are not as deep, he said.

"I think it's apparent greed" for additional premiums, said Mr. Kelley, adding it's tough business to underwrite profitably over the long term.

The admitted market is so competitive that even a manufacturer of high-pressure valves for the petroleum industry found product liability coverage there, Mr. Payne noted. The financial uncertainty surrounding the manufacturer's key surplus lines insurer, Home Holdings Inc., scared the manufacturer into the standard lines market. Even constant updates from Crump about the takeover bids Home received could not placate the client.

While the manufacturer paid more, the incident illustrates how admitted insurers are placing a heavier emphasis now on a buyer's loss history than on the nature of its risk, Mr. Payne said.

Where insurers are not cutting rates, some are expanding coverage for no additional premium.

For example, "some markets have totally removed their pollution exclusion altogether," said Stephen Gerstman, senior vp of underwriting and marketing for Tudor Insurance Co., a unit of Western World Insurance Group of Ramsey, N.J. "That is a very significant move that we've seen over the last year."

Among those is Continental Casualty Co., a unit of CNA Financial Corp., which has made several coverage options part of its basic architects and engineers professional liability policy, said Schinnerer's Mr. Genecki. Schinnerer has an exclusive underwriting management agreement with CNA for this business, which provides $15 million of claims-made limits.

The coverage now includes a $5 million pollution liability sublimit, with a retroactive date of Oct. 1, 1986. CNA and Schinnerer hope to boost that to $10 million by this fall.

In addition, the coverage now includes a $5 million asbestos bodily injury liability sublimit with a Jan. 1, 1990, retroactive date.

And CNA will cut a policyholder's deductible by 50% if it agrees to resolve claims through mediation.

Directors and officers liability risks can expect some rate cuts, but more importantly, good risks will find insurers more willing to cover prior acts and so-called "greenmail" claims over payoffs to unfriendly suitors to abandon their takeover efforts, Swett & Crawford's Mr. Stanley said.

Some insurers even have eliminated D&O coverage retentions for some non-profit organizations and small for-profit companies, said Tudor's Mr. Gerstman.

In addition, D&O coverage now often includes broadened employment practices coverage, and there is broader coverage for employment-related claims under public entity liability policies, he said.

Employment practices risks, though, are not moving out of the surplus lines market, said Lexington's Mr. Kelley.

Indeed, Lexington's employment practices liability business is growing. "Clients are becoming aware—sometimes painfully aware—of their increasing exposure," while standard lines underwriters increasingly are excluding the coverage from general liability policies, Mr. Kelley said.

And, risk managers at companies that are financially distressed or have an initial public offering outstanding will not find many takers for their D&O risks, surplus lines executives agree.

Other risks that still will have to count on non-admitted insurers for coverage include tough product liability risks like pharmaceutical and biotechnology firms, and energy and mining companies, Mr. Kelley said.

Continental Casualty has boosted professional liability rates 10% to 30% for real estate agents in 13 states because of the severity of misrepresentation claims, Schinnerer's Mr. Genecki said. Agents in California, Hawaii and Illinois saw some of the largest increases, he said.

Homebuilders and developers in California, especially those that have built condominiums, also face tough renewals because of the faulty construction claims that many builders face, said Dave Hartoch, president of Sherwood Insurance Services, the San Francisco-based wholesale broker unit of Aon Corp.

"Prices certainly are up dramatically from two years ago," Mr. Freudberg said.

Similar market problems are developing elsewhere as well for homebuilders and developers, particularly in Texas, Mr. Hartoch said.

Rates for medical malpractice liability coverage for nursing homes and inpatient and outpatient clinics also are rising for the first time in years, noted Tom Mulligan, senior vp of underwriting and marketing for Western World Insurance Co., a unit of Western World Insurance Group in Ramsey, N.J.

"Some of the companies that perhaps were writing (the coverage) a bit too low are pulling out" of the market, he noted.

On the property side, there is some competition, though not as much as for casualty risks, said Paul McCain, vp of Crump subsidiary Crump Insurance Services of Texas Inc.

The standard lines market generally is keying in on the largest accounts, agreed Mr. McCain and Swett & Crawford's Mr. Stanley.

Earthquake coverage, though, remains a problem for buyers. Rates for earthquake and difference-in-conditions coverage are up 10% to 25% on average when wholesalers can find coverage. That is getting increasingly difficult because many insurers have reached their market saturation points in the most problematic quake regions.

Limits also are falling and deductibles are rising, Mr. Hartoch said.

Limits of $50 million to $200 million are available, though they are not easy to place, he said. Available limits will vary widely, depending on the number of locations a buyer has and the value of its properties, he said.

Mr. McCain said buyers typically can afford $10 million to $20 million of coverage, when it is available. Beyond that, coverage gets "prohibitively expensive," costing buyers an additional 50% to 75% or more, he said.

Lexington, for example, is cutting back on its earthquake business, though it is keeping its quake limits of $2.5 million to $5 million and is writing some new business, Mr. Kelley said.

The leading surplus lines insurer is dropping quake accounts when it cannot get the rate it wants, is uncomfortable with its attachment point or has paid other loss claims, like fire damage.

But, the hard market for earthquake coverage may not last much longer, Mr. Stanley said.

He expects the earthquake market will attract insurers because "that's one of the few areas where you can still get premiums." BI

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Agent/Broker Topics

A monthly editorial section sent exclusively to agents and brokers

Creative marketing can help producers stay in the spotlight

Finding ways to stand out from the rest can boost agency business, recognition

By MICHAEL BRADFORD

Like the fabled tortoise, agents and brokers are learning that a slow and steady pace can give them a leg up on the hares in the marketing race.

Insurance intermediaries for the most part are a conservative lot when it comes to tooting their own horns. While an occasional offbeat marketing idea may surface, most agents and brokers like their advertising and promotions to reflect their professional style.

Many of them vie for potential clients with trade show exhibits, where the battle for market share is fought with thousands of logo-emblazoned gadgets, gizmos and gimmicks that eventually find their way into America's garage sales or garbage pails.

Trade shows, in fact, point up the problem of how difficult it can be for agents and brokers to stand out from the crowd. To be distinctive takes a lot of creativity with some substance behind the flash, marketing experts agree.

While a trade show approach can generate a lot of leads, it generally takes a patient and clever campaign to achieve the kind of name recognition and reputation that an intermediary needs to succeed.

"There is a need today to be creative. You have to stretch your imagination a little bit," said Kimberly Paterson, president of Creative Insurance Marketing Co. in Red Bank, N.J.

Creativity by agents and brokers is particularly important given today's insurance market conditions, with small if any price increases in many lines cutting into insurance producers' commissions, she said. "If you're going to survive, you've got to have new business coming in the door."

The old ways of prospecting are no longer as productive, said Ms. Paterson. In the past, the accepted approach was through letter writing and follow-up telephone calls. Tenacity and aggression were the traits that led to successful sales.

The problem with letter writing and, in some cases, direct-mail campaigns, is having one's material stand out in a sea of junk mail that potential customers must wade through each day.

"You're still seeing some direct mail in personal lines, but not much," said George Nordhaus, chairman of Insurance Marketing & Management Services, a Santa Monica, Calif., firm that provides information services to agents.

He pointed out that many agents can't justify the cost of a mailing to solicit, for example, automobile insurance renewals.

Instead, many agents and brokers are targeting specialty markets, developing expertise on a given industry and pursuing those accounts, said Mr. Nordhaus. The agent's job has changed from finding customers for a range of product offerings to developing products that fit special customers' needs, he noted.

Mr. Nordhaus cited an insurance agent in the northeastern United States who took it upon himself to learn everything he could about volunteer fire departments. After aggressively marketing his agency to the departments, the agent now writes coverage for most of the volunteer fire departments in the United States.

Ms. Paterson pointed out that an intermediary has to develop a profile and expertise that will lead a buyer to seek out the agent or broker. "We have to be in the right position so that when the buyer is ready, he can access us," she said of producers. "The buyer is calling the shots now."

Buyers have to be so familiar with a company's offerings and reputation that they know exactly where to turn when a product or service is needed.

That means buyers have to be so familiar with a company's offerings and reputation that they know exactly where to turn when a product or service is needed.

Establishing a high profile through a patient and consistent campaign is the only way to do that, Ms. Paterson remarked.

A company's profile sometimes is unintentionally enhanced through its own altruism.

One broker, for example, reaped some unexpected public relations benefits from an unusual effort that was intended as an anniversary celebration and not a promotion.

A year ago, Johnson & Higgins began looking for a unique way to celebrate its 150th anniversary. The company initially thought of becoming involved with disaster relief, possibly working through the Red Cross or another agency to provide help to victims of famine, flooding or other catastrophes. Another idea was to help plant trees throughout the world.

But when an employee suggested helping children, the company knew that such an effort would fit nicely with its corporate theme of "Experience for Tomorrow."

"Since our company has been community-minded forever—we encourage people to volunteer their time—it seemed a natural," said Rod Day, senior vp and director at New York-based J&H. "We decided to focus on the kids."

J&H closed its offices worldwide on May 11 and 8,500 employees from 120 locations used the day to work with children in neighborhoods, clubs, children's homes and other facilities all over the world (*A/BT*, June 5).

The brokerage's effort got more attention from the media than it expected, said Mr. Day.

In Trenton, N.J., for example, a Philadelphia television news crew showed up to tape J&H employees working on a Habitat for Humanity project, followed later by an appearance from the mayor of Trenton.

And J&H's corporate communications department has accumulated a large file of newspaper clippings and video clips on the anniversary celebration, said Mr. Day. "We did get more of a sort of positive PR than we thought we would."

The effort was so successful that it will be repeated each year during the week of May 11, Mr. Day noted. Beginning next year, offices will stagger their closing days.

"We've seen some very interesting things with community programs," CIM's Ms. Paterson said.

She told of a broker in a "fairly small town in the Midwest" that decided to enhance its profile as a leader in the community. The broker ran a photo contest for the city's children and area businesses displayed the photographs. A scholarship was awarded to the winner.

In another part of the country, a broker sponsored a safe-workplace contest among local businesses and tied the effort to a significant scholarship award.

Ms. Paterson points to such efforts as "non-threatening" ways to approach businesses that are potential clients while giving a boost to a broker's professional image.

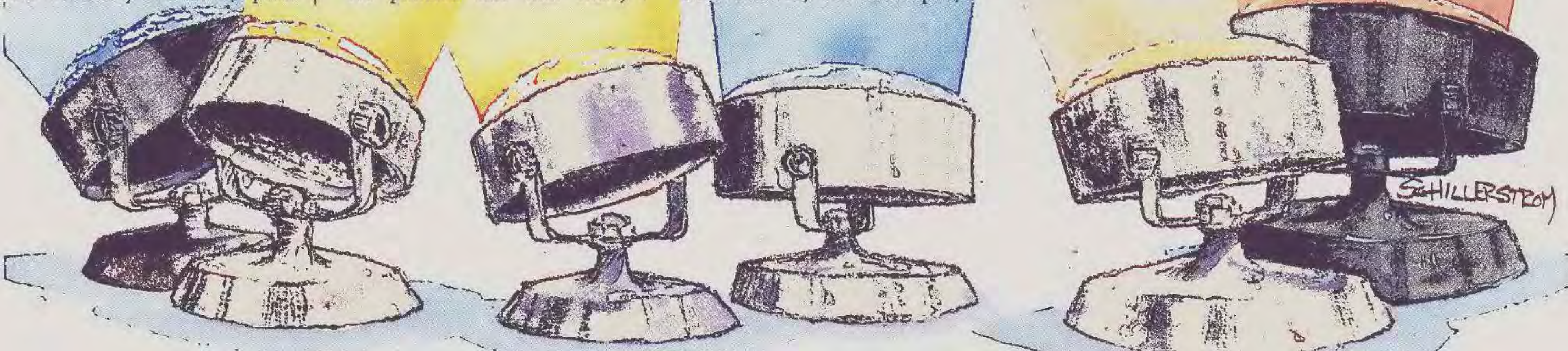
She also has seen brokers have success sponsoring seminars that business people can attend. "It's about showing that you know what businesses are facing and providing information that they can use. That's an extremely powerful tool."

While retail brokers face the task of gaining recognition from insurance buyers, wholesalers have to keep their names in front of the retail broker.

"We have a long history of consistent advertising" in trade publications, said Nanci Evarts, vp and manager of corporate communications at wholesaler Swett & Crawford Group in Los Angeles.

And, in recent years, Swett &

See **Marketing** *on page 26B*



Marketing

Continued from previous page

Crawford has begun appealing directly to insurance buyers, with the caveat that they must contact their retail agent or broker to access a program being publicized.

Ads placed in Splash and Fun World magazines, for example, have touted coverage for water parks, while trucking programs are being publicized in magazines aimed at trucking companies, Ms. Evarts noted.

Swett & Crawford also has carved a niche in the short-line railroad industry. In promoting coverage for the freight carriers, the broker displayed a booth at the Short Line Railroad Assn.'s trade show in Washington and hosted a dinner for clients at the railroad hall in the Smithsonian Institution.

The broker used a "newspaper wrap" as an attention-getter at the conference. "We created a paper that talked about our new railroad program, wrapped it around the Washington Post and delivered it to the rooms" of attendees, said Ms. Evarts.

As a result of its efforts, Swett & Crawford's railroad insurance program experienced a "very powerful launch," she said.

"The goal of all our ads is to remind the agent of what we bring to the table," said Ms. Evarts. The aim is to help agents bring in additional accounts, including those that wouldn't be available without a wholesaler as a partner, she added.

Swett & Crawford also uses direct mail, with a new campaign beginning in July that will emphasize "we deliver the tools of the trade" to help agents make their businesses more successful, Ms. Evarts noted.

A new frontier for agents and brokers looking for innovative ways to promote their offerings lies along the information superhighway, according to Mr. Nordhaus of IMMS.

"It's really new days," he said. While most insurance agents and brokers have yet to pounce on the medium, some agents are testing the waters.

A service called Insurance Online is offered to Prodigy users looking for personal lines coverage, Mr. Nordhaus said. Potential buyers can dial up and provide information typically found on a policy application. They are given a quote and the information is forwarded to an agent in the applicant's area.

Agents pay a yearly fee to be included in the service.

The potential of marketing on the Internet cannot be ignored by agents and brokers, Mr. Nordhaus said. With hundreds of millions of worldwide users projected, "an agent who is not looking into that needs his head examined." BI

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In 1895, nearly 90% of all Americans lived on small farms like this one in Pipestone, Minnesota.

Insurance ads require specific objectives

Industry should not fear creativity: Expert

Kimberly Paterson is president of Creative Insurance Marketing Co., a Red Bank, N.J.-based marketing communications firm she founded in 1978.

The daughter of an independent insurance agent, Ms. Paterson has spent virtually her entire career developing advertising and marketing campaigns for insurers, agents and brokers.

Today, CIM's clients include Marsh & McLennan Cos. Inc., the National Assn. of Professional Insurance Agents and the American Insurance Assn. as well as major insurers like CIGNA Corp. and Travelers Corp.

Ms. Paterson recently shared her thoughts on effective marketing and advertising strategies for agents and brokers with Associate Editor Sara Marley.

How can insurance agents and brokers use advertising to their advantage?

I think there are two things to focus on to tie advertising to business objectives.

The first is to use advertising to increase the effectiveness of sales efforts. The second is to improve customer retention.

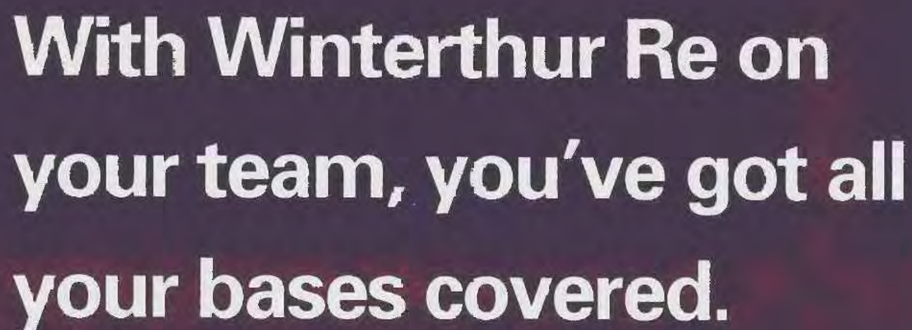
Rather than thinking of advertising in soft, touchy-feely terms like image and name awareness, really think of it in terms of improving sales and improving customer retention.

How would you define a successful advertising or marketing campaign?

A successful advertising or marketing program is one that meets your objectives. They need to be specific and measurable.

I look at advertising to do three things. First, reinforce my customer's decision to do business with me. Second, I look to advertising to open doors to new business. If I call a prospect and they already know who I am, they are predisposed to my company. They know me, so it's easier to open that door. Third, advertising should generate quality new business opportunities.

See Q&A on page 26D



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Q&A

Continued from page 26B

People judge effectiveness of advertising based on mere perceptions because they never had a clear goal of what they expected to accomplish. It's not soft and indefinite. It's like anything else in your business plan.

You need to make sure you have the resources, skills and capability to deliver. If an agent or broker doesn't have what it takes to reach their goal, no advertising in the world can get through. Advertising creates the opportunity but you still have to deliver the goods. The best advertising can't sell a bad product.

What are some of the limitations of an insurance advertising or marketing campaign from an agent's standpoint?

Ms. Paterson

Marketing is the way you go about selling a product. It's a big umbrella and advertising falls under the umbrella. Advertising is one small piece.

Advertising makes sales easier. It does not make the sale. It will not totally solve your marketing problem. The expectation is that advertising will solve the problem of generating new, quality leads.

You need to make sure that every process in your business that touches a client or prospect supports the sales process, whether it's correspondence, how you handle a renewal, statements, your office, how you answer the phone or how your salespeople look. Every component should support the image you're trying to sell.

The American public is very jaded. We've been lied to and duped so many times by politicians and the media that we're a suspicious lot now. It's important to do everything you can to build trust and to deliver what you promise.

What are some of the current trends in insurance-related advertising?

There is an explosion in creativity in insurance advertising as a whole. When I first entered the business, insurance advertising was extremely dull and predictable. The American flag, apple pie and happy, smiling people was the genre of insurance advertising. The old rules are gone. There is a lot of creativity out there today. It really has changed as a category.

How do novices get an advertising program off the ground? What would be a good first step for an agent or broker to take?

Pick a single objective. Don't try to solve every problem at one time. Be very clear about what you expect to accomplish. Develop a very specific action plan for how you are going to make that happen. And finally, you've got to be prepared to fund it.

What we see is people have too many objectives and not enough dollars. They have to be in line. It's a balancing act.

How frequently do you recommend changing an advertising campaign?

People often change advertising before it's time. Research proves that people need seven exposures to an ad before it sinks in.

But a client runs an ad three times and they're sick of it. They change it before it's had a chance to have an impact.

Some of the most successful stories in advertising history are where a basic ad campaign and a fundamental message didn't change for 20 or 25 years. The Maytag repairman has been around forever. Allstate's "good hands" is a consistent theme. Met has the Snoopy characters and the "Get Met. It Pays." as a consistent theme. They do new creative work, but it builds a powerful image.

Looking at the various advertising media, such as print, electronic, direct mail, which are the best vehicles for insurance advertising?

The best vehicle for insurance advertising depends on what you are trying to accomplish. You've got no business being on the radio or in the newspaper if you want to focus on a very specific industry. But if I want to be No. 1 in my geographic market and I write homeowners, business, everything, then mass media is excellent.

The key ingredient is not which is best, but which can most cost-effectively help to get to the audience you're targeting.

How do results vary between types of promotions, such as sponsorships or direct mail?

You typically expect different things from those promotions. Sponsorship of an event gives you good name awareness, but you may not really see an increase in sales. In direct mail, you want to elicit a response, specific leads.

So each works in different ways. Both play a valuable role.

How is the use of direct mail changing as consumers become more and more sophisticated?

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See **Q&A** *on page 26E*

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Q&A

Continued from page 26D

competitive, there are more products than buyers for them. The public no longer has a sense of urgency. There is always another, better deal down the road. It's hard to get people to act, and direct mail is all about action.

People receive so much direct mail that it's becoming increasingly challenging to stand out from the clutter. And people are used to seeing quality. The money in products sold through the mail today is increasing at an incredible rate, but it's a tougher, more sophisticated, more competitive arena.

On the business-to-business front, with voice mail it's getting increasingly difficult to make phone contact with prospects. They have their barriers up. With mail, you need to catch their attention or you're in the garbage, but you get a chance to state your case. We have relied very heavily on the phone, but I think it's swinging back to more direct mail because of difficulty in getting through.

Does the Internet have potential as an advertising vehicle for insurance producers?

Certainly the Internet at this stage does have potential. Agents and brokers need to look at it and give it consideration. I see people getting on and off very quickly. The agent or broker who uses it effectively is the one who knows how to use it very creatively and very interactively.

Don't go online and expect to do business the way you do it now. People will expect to do business on it, not that they'll have to call your office between 8 a.m. and 5 p.m. and wait two days for a call back.

The jury is still out on whether the Internet will achieve its potential or whether it is the CB of the '90s. Whether 5% of the market will use it or whether it will be the way we live. We don't know whether the American public prefers to be passive or interactive.

What advertising assistance can producers rely on from insurers?

The financial pressure the industry is under has left less money available to support producers than ever. What money is available typically is limited to the largest producers for a company. The money is very targeted. Companies are very selective in the products they are offering and their support is directed toward specific programs.

Be careful when you use a company's promotions for a specific program. If your competition also is offering the product, you haven't done yourself a lot of good. Agents need to build their own identities. Agents need to promote themselves, their capabilities and what they bring to the table rather than a company's product.

Where agents really can benefit is when companies have done a lot of demographic research on a market. That is extremely valuable.

What impact has the prolonged soft market had on producer advertising?

With the financial pressures on business today, budgets are cut to the bone. Agents and brokers have pared down in every way they can and advertising and marketing is one of the first things to go in the time when it's needed most. Both agents and companies need new business, so they can't cut the thing that brings them new business. You won't hear too many say they have all the business they need.

How have the insurance producers' advertising and marketing strategies changed in the last 10 years? Do insurance agents approach marketing differently now than when your father started as an agent?

The tools have changed, but the basic strategies haven't. We see increased use of video as a medium, cable and laptop computers for sales presentations. We're seeing agents make better use of technology. But their approach to advertising is sometimes hit or miss, not consistent, seldom based on specific business objectives and seldom measured or held accountable. That's the part that hasn't changed that bothers me.

How do you think agents and brokers will employ advertising in the future?

Agents are going to be handling advertising more skillfully or they won't be in business five years from now. The agents who are successful are the ones who have truly mastered the skills of marketing.

There are new forms of media which we have yet to even conceive. It really depends on which way the business goes, and it's up for grabs now.

If it goes toward being a commodity business, only the largest, strongest players will survive. The seller really controls the market in the product delivered.

Or the future could be driven by companies that deliver a one-on-one, tailored product, where the buyer really controls the situation.

Both trends are very strong and it's too soon to say which wins out.

Agents and brokers are going to be very challenged by the "Wal-Mart scenario." It's a low-cost-driven strategy, and commission is a big expense.

Agents have to carve out new and different roles for themselves, by stressing the consulting aspect and selling what they know as opposed to focusing on getting the most inexpensive price. BI

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Client entertainment is changing

By GAVIN SOUTER

Client entertainment isn't what is used to be, according to both the brokers who lay out the parties and the risk managers who attend them.

But this is not necessarily a bad thing, they both are quick to add.

Although budgetary constraints have played a role in paring back expense budgets, there are other factors—including a greater degree of professionalism among risk managers and a refocusing of marketing efforts by brokers—curbing the number of cocktail parties.

Now a broker is more likely to concentrate its marketing efforts on client education and new products and services.

And while cocktail parties and dinners are still important, they are likely to be more intimate or focused on individual client interests.

Client dinners and parties are now not as lavish as they were in the 1980s, said Nancy Oblinger, senior vp at Minet Inc. in New York.

"People were throwing a lot of money around in the 1980s but I sense in the 1990s people being a little more pragmatic," she said.

While risk managers still expect to be entertained by brokers, many buyers have seen cutbacks in their own companies and do not want to see their insurance brokers being too profligate, Ms. Oblinger said.

Brokers recognize that it is inappropriate for them to appear extravagant in front of clients who are living in an era of budgetary constraints, agreed Robert Murphy, director of U.S. marketing at Alexander & Alexander Services Inc. in New York.

"It's clear that clients value that type of thing less and less. . .if they think it is inappropriate it would be silly of us to do it," he said.

At the Risk & Insurance Management Society Inc. conference, for example, A&A has reduced the number of hours that its hospitality suite is open and less money is spent on outfitting it, he said.

"It is still important because it is a pleasant way for clients to meet senior executives, but we have cut back on the after-dinner part," Mr. Murphy said.

Risk managers now are more likely to visit the suite prior to dinner, he said.

Brokers, too, have budgetary constraints to consider.

But, most could still afford to host expensive entertainment if they thought it would enhance their client relations, he said.

"It's not as if we have to serve them peanuts instead of shrimp, it's what they value that counts," Mr. Murphy said.

The fact that once-common lavish parties got out of hand was partly the fault of the brokers that hosted them and partly the fault of the risk managers who expected them, said Kenneth Gerrity, risk manager at Genstar Stone Products Co. in Hunt Valley, Md. "But now risk managers have decided that somewhere along the line we are paying for this."

The recognition is part of the increasing professionalism of risk managers, Mr. Gerrity said. "Risk managers are becoming more sophisticated and are becoming a lot more interested in the professional services that a broker can offer rather than lunch and golf."

Even if brokers were willing to continue to flex their client entertainment expense accounts, risk managers often do not have the time to take advantage of the offers, said Carla Eberling, director of risk management at Van Heusen Corp. in New York.

At the RIMS conference, risk managers are involved in more business meetings than previously, she said.

Frequently they will have breakfast, lunch and dinner business meetings, educational sessions to attend as well as needing to remain in contact with their own offices, Ms. Eberling said.

"A lot of risk managers don't re-

See **Parties** *on page 26L*

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Nationwide draws women to sales

By RODD ZOLKOS

Nationwide Mutual Insurance Co. launched its Women in Nationwide Sales program two years ago with the intention of increasing the number of women in its sales force and the goal of recruiting an equal number of male and female agents in 1995.

Through the first five months of this year, the company was nearly on target.

As of May, 46% of Nationwide's newly hired agents—approximately 50 new agents—were women. "Our goal is to have 50% of our new hires be women, so we are pretty close," said a spokesman for the Columbus, Ohio-based insurer.

The WINS program couples a training effort with a $1 million advertising and public relations campaign.

As part of the program, Nationwide runs print ads in various national magazines aimed at recruiting women.

The advertising campaign was designed to touch on common frustrations of professional women ages 25 to 54 that could lead to a career change, such as the desire to own a business, lack of opportunity with current employers or inadequate earning potential at their current jobs.

The campaign still is appearing in such publications as Working Woman magazine, the company's spokesman said. And, as the WINS program continues, it is changing slightly in that the responsibility for running it is moving to Nationwide's various state operations from its Columbus headquarters.

"Now instead of being run out of the home office, it's being sent out to each of the states to implement," the spokesman said. "So WINS in each state will be a more local management setup."

"Every one of our state offices has an objective that 50% of their hires will be women," said Jon Chabra, agency development manager at Nationwide in Columbus. Because that objective is in writing, it's something the offices are very aware of, he said.

The WINS program also has a goal of appointing women to at least one-third of its new agency manager positions this year.

Dina Tutton of the Dina Tutton Agency Nationwide Insurance in North Dallas, Texas, is one of the agents brought into Nationwide through the program, having joined the company in May 1994.

She came to Nationwide from a State Farm agency where she had worked for 10 years. "I actually took over an existing agency of somebody who had retired,"

she said.

"It's going excellent," Ms. Tutton said. "Everything's been working out just fine. We have a full staff here, we've made all the quotas and received the awards."

After spending about six months "cleaning house" when she first took over the agency, "we're now a sales machine," Ms. Tutton said. "That's what they want us to be."

Ms. Tutton believes Nationwide's incentive for implementing the WINS program is obvious. "The reason they're doing it, naturally they don't want to have just a one-sided company. They don't want to have all men."

In fact, Ms. Tutton said, being a woman running the insurance agency offers certain business advantages, attracting more business to the agency from women insurance buyers.

'Every one of our state offices has an objective that 50% of their hires will be women,' says Jon Chabra.

"Actually, we're getting a lot of good response to my being a woman," she said. "We're getting a lot of women in business calling in."

Ms. Tutton has only praise for Nationwide's WINS effort. "I can't say anything bad about the program," she said. "I'm certainly glad I was able to get in when I did."

Nationwide currently has 407 women agents, representing about 9% of the insurer's total sales force of 4,524. Reaching the goal of 50% will take some time, Mr. Chabra said.

"Obviously, that has to be a long-term goal," Mr. Chabra said.

"It's an ongoing program. We recognize that females have the same talents as males do in sales. We are committed to serving the market with the proper mix," he said. BI

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Hiring recent grads in sales can translate to big agency profits

By SALLY ROBERTS

Insurance agencies wanting to bolster their revenues need to look no further than their nearest college or university.

Recent graduates are "absolute gold mines" when it comes to selling insurance, contends Richard M. Womack, an independent insurance consultant in Birmingham, Ala.

Many agencies however, do not think a 22-year-old can sell insurance to a 55-year-old, Mr. Womack said. Agencies believing this fall into the "'fig' syndrome"—fear, ignorance and greed, he said.

"It's a terrible curse," he said. Agencies fearing a culture change stall their own growth.

Most agencies today are squeezing dollars and looking at their balance sheets to find ways to cut expenses, Mr. Womack said.

"If you get eight to 10 young producers, they will be making you so much money" that the other concerns will go by the wayside, Mr. Womack told agents attending a session on raiding recruits at the recent Insurance Marketing & Management Services annual meeting in Vancouver, British Columbia, held June 8-11.

"Those kids will make you rich," Mr. Womack said. "The insurance agency is a good business, but as long as you're happy and really comfortable, a train is coming and it may get you before you hear it," he said.

Young producers are so good because when they get rejected after making 10 sales calls, "they are astonished they didn't get the business," Mr. Womack said. "They don't give up."

However, before an agency decides to hire students straight from college, it needs to decide if it is ready to change the culture of the agency, because as soon as an agency hires a young producer, the culture changes to become more sales-oriented, he said.

Johnny Pitts learned quickly what young producers could do for his agency.

When Mr. Pitts and his partner bought Lipscomb & Pitts Co., a Memphis, Tenn.-based insurance agency, from their fathers three years ago, they determined the agency's main problem was producing income.

Young producers are so good because when they get rejected after making 10 sales calls, 'they are astonished they didn't get the business,' says Richard Womack.

And since producing income meant producers needed to sell more products and services, the agency took a look at its producer staff.

What resulted was a "life boat drill," said Mr. Pitts, who also spoke at the IMMS conference. He imagined he had to put all his employees in a sinking life boat and in order to survive, he could only save 80% of the employees, he said.

"We whittled down the agency to a quality core and then decided to hire young folks," Mr. Pitts said.

While hiring men and women straight out of college is expensive and time consuming, "it's a sure fire way to succeed," he contends.

Indeed, in his first three years of owning the agency, it has grown to 56 employees from 29 and sales have nearly doubled, he said, declining to give any specific figures.

In the past, the agency relied on hiring insurance people and training them to sell, Mr. Pitts said. The agency soon found it "is easier to train the industry than to change a personality."

And while only two out of every 100 people have the right selling personality for an insurance agency, Mr. Pitts visits a variety of career days at colleges and universities to seek those potential employees.

Mr. Pitts said that while he finds his competitors at the career days, they do not send the owners of the agency.

"It's time consuming and a pain, but you must go," he told the agency owners attending the session. It's the owners that can relay success stories to the students and really get them interested in the possibilities of a career in the insurance industry.

When Mr. Pitts finds interested candidates at the career days, he then will set up interviews.

There are only 10 questions one needs to ask during the interview in order to determine if a candidate will be a good producer, Mr. Pitts contends.

In addition to determining the graduation date and evaluating their appearance, Mr. Pitts asks the following:

- Where is home for you? Agents should be wary if the potential hire could become homesick, he advises.
- How many hours per week are you carrying, including class, work and extra curricular activities? Mr. Pitts said he looks for about 50 hours per week.
- Do you practice goal setting? If so, describe your goal setting process. "If they have to pause, they don't have one," he said.
- Are you a competitive person?
- If accused of having no initiative, how would you defend yourself?
- What is your most satisfying accomplishment?
- Do you know anybody that is an insurance agent? If so, what do you think about him or her? This question will lead to what the student's perception of the industry is, Mr. Pitts said.
- In 20 years, what do you want people to say about your work?
- In five years, how much money do you need to earn? While there will be interesting answers, "the best (candidates) have already pictured where they will be and know how much money they need," he said.
- If time, geography and language were not boundaries, what three people would you like to meet? The answers will reveal much about the potential hire's background and interests, Mr. Pitts said.

Candidates taking a job with Lipscomb & Pitts receive a high salary and many benefits, he said.

But at the same time, "you fire them when you hire them," he said.

New producers have a "validation period" for which he or she must produce a certain amount of gross commissions.

While they have the comfort of knowing they will have a job for a certain period of time, they also know they are out of a job if they are not up to par, according to Mr. Pitts. BI

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Being thankful for complaints

Agents can spot problems, build loyalty through service recovery

By SALLY ROBERTS

Agents and brokers should not provide staff with incentives to decrease the number of customer complaints.

Instead, they should focus on service recovery after a complaint comes in, a consultant advises.

"Complaints are wonderful," said Stephen Mulvany, president of consulting firm Management Tools Inc., based in Orange, Calif.

Statistics show that only 4% of a company's client base complains, Mr. Mulvany said. But for every complaint, nine other people have a similar circumstance and do not tell the company. In addition, each of the 10 people with that same complaint will tell six additional people, he said.

Despite those numbers, Mr. Mulvany said that customers who receive excellent responses after raising a complaint with a company will have a greater sense of loyalty to that company than they would to a company that did everything right in the first place.

Mr. Mulvany gave agents and brokers tips on service recovery during a session at the recent Insurance Marketing & Management Services conference held in Vancouver, British Columbia, June 8-11.

When a complaint comes in, agents and brokers should "listen to the customer until he or she can't complain anymore," he said.

After listening to the customer without interrupting them, the first thing the agent or broker should say to the customer is "thank you," Mr. Mulvany advises. This response lets the customers know that "you are on their side."

Then agents and brokers should "leave the ego outside" and apologize to the client, he said. And while they do not have to agree with the client's opinions, they need to show empathy, he said.

Being able to state the customer's situation will calm the customer, Mr. Mulvany said. It is at this time, he said, that the agent or broker should "go for the fix."

Not only should the agent or broker ask what they can do to rectify the situation leading to the complaint, they need to "add to the fix" by giving the client something a little extra, like a gift certificate, said Mr. Mulvany.

And that added gift should come several days after the complaint is rectified, he added.

Agents and brokers should then go into "prevention mode" and do whatever is necessary to make sure the problem does not occur again, Mr. Mulvany advises. BI

Broker advises focusing on image

By SALLY ROBERTS

Insurance agents' and brokers' biggest concern is not competition or the soft property/casualty marketplace: It's the industry's negative image, an insurance brokerage executive contends.

"The general image of the industry is lousy," said Donald Morford, president and chief operating officer of Sedgwick James Inc. in San Francisco. "It should concern you more than any other," he told agents and brokers attending the recent Insurance Marketing & Management Services convention held June 8-11 in Vancouver, British Columbia.

One only has to look back to voter support of California's Proposition 103, which mandated that property/casualty insurers roll back rates and issue rebates to customers, Mr. Morford said. "It is the worst piece of legislation ever drafted in California," he said. And while the insurance industry spent more money advertising its opposition to the legislation, it lost because "the public thought if we were against it, they must be for it," he said.

In addition, "if you check in your communities, look to see how many colleges offer insurance as a major," he said.

"I'm not ashamed to say that I peddle insurance," Mr. Morford said. "This is a great industry."

But in order for the general public to view the insurance industry in the same way, agents and brokers need to implement a quality initiative, hire good people, wave the industry banner and become client-focused, Mr. Morford said.

If agents and brokers do this, it

See Image on page 26K

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Identifying key traits of top service firms

By SALLY ROBERTS

What do such varied companies as Wal-Mart Stores Inc., Microsoft Corp., Federal Express Corp. and The Walt Disney Co. have in common?

They are all "winners," according to Stephen Mulvany, president of Management Tools Inc., a business consulting firm in Orange, Calif.

And just as winning companies are emerging faster, losing companies are falling faster, he said.

Mr. Mulvany described the common characteristics of winning companies to insurance agents and brokers attending a session at the recent Insurance Marketing & Management Services conference held in Vancouver, British Columbia, on June 8-11.

- Winners have a vision for success while losers tend to rely on the past and avoid failure. "More companies die of indigestion rather than starvation," he said.

Every winning company can describe that company in the year 2000, Mr. Mulvany said. Unfortunately, most people tend to focus on putting out the fires rather than on the vision of the future.

Mr. Mulvany said it is important to set a mental image of the company. If the mental image of the company is defensive, employees will focus on avoiding failure, he said.

- Winners cause change, while losers wait to react to change. "If change inside the organization is slower than change outside, you're heading for disaster," Mr. Mulvany said.

Every company should understand their clients and know what they really want, he said.

- Winners sell services while losers sell price only. Price is important and it is becoming more and more important, Mr. Mulvany said. However, companies need to figure out how to offer services that customers are willing to pay for, he contends.

Great service companies understand why service is so important, he said, referring to what he calls "the three R's"—customer retention, rationalized prices and client referrals.

These leading service companies measure customer retention on an ongoing basis; can confirm the value customers receive and justify the price it charges; and receive referrals from satisfied customers, he explained.

- Winners go with winners and losers rescue losers. "In today's world, you can't put up with mediocre people and products," Mr. Mulvany said.

Companies need to spend the time and effort in hiring the best people and not on trying to make underachievers better performers.

A company should be able to recognize who the "game breakers" are in the organization as well as the "game-breaking" positions.

- Winners possess an urgency for improvement within the company whereas losers are afraid of making changes.

Winning companies have continuous improvement in mind, Mr. Mulvany said. No matter how good the company is, it wants to get better. BI

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Current market offers opportunity: Brokers

By ROBERTO CENICEROS

This year is presenting plenty of good news for producers, particularly for client retention, says a brokerage executive.

Sedgwick James Inc.'s "Insurance Market Trends and Developments 1995" report assesses current insurance market conditions, which bode well for agents and brokers, according to Charles R. Fiske, group director of national broking at the Memphis, Tenn.-based brokerage.

"I'm optimistic and upbeat in this kind of market," he said. "I think our industry today presents more opportunities than it has in the last 25 years."

Insurer mergers and acquisitions, the soft market and the growth of the alternative market are just a few of the issues treated in the 51-page report and among the reasons for optimism, Mr. Fiske said. Although the report was not prepared specifically for producers, it offers a broad overview for anyone interested in the state of the market.

Market conditions are not expected to change dramatically in 1995, but market softening is expected to continue, much as it did in 1994, the report said.

That means there is no better time for a positive-thinking producer to find new accounts, Mr. Fiske said. The continued market climate means there will be not only few capacity problems but also rates attractive to the customer.

Agents and brokers should be able to present potential clients with good products that are competitively priced. But, while aggressively seeking new business, producers must take care that they do not lose portions of their established book to competitors touting even lower rates. Producers must ensure that their existing clients receive the best terms and conditions as well as the best rates.

"The advantage still goes to the incumbent producer because they will still get the last look if they have a good relationship (with their client)," said Mr. Fiske.

The current market is good for retaining clients, agreed Craig Sturges, president of Garland-Sturges & Quirk Insurance Services Inc. in San Jose, Calif., and chairman of the commercial lines committee of the San Francisco-based Insurance Agents & Brokers of the West.

Retaining clients would be a greater challenge if rates were dropping quickly rather than gradually, Mr. Sturges explained. In a market where rates change rapidly, clients could be tempted to switch agents or brokers every time a competitor offered substantially lower rates.

See Trends on page 26L

Image

Continued from page 26I

"will raise the bar of public perception," he contends.

Agents and brokers need to start by changing their hiring and recruiting practices in the industry, he said. To do this, companies should not only conduct formal campus recruiting, but they should psychologically test all new hires to ensure they will be effective within their position and the company.

At the same time, agents and brokers need a quantifiable quality initiative implemented in their companies, he said.

All agents and brokers who are asked if they are a quality company will say yes, Mr. Morford said. But "do you really have a formalized quality initiative" that is benchmarked? he asked.

He suggests agents and brokers become ISO 9000 certified. This is important because many manufacturers already have received certification from the International Safety Organization 9000, which set international quality assurance standards, he said. These manufacturers will look to agents and brokers to be servicing the same quality standards in the near future, he said, adding that four of Sedgwick's offices will be certified by ISO 9000 by year's end.

In addition to having qualified people and a true quality company, producers "need to be out waving a banner about the industry all the time," he said.

At Sedgwick, for example, "we have designed, at every level of the company, a video tape and written speech about the industry," he said. Every community has groups like Kiwanis or Rotary clubs, for instance, and these groups need speakers.

"We make it a requirement that employees are in a community activity," he said. And for those who do not like to speak in public, the company funds seminars on public speaking, he said.

Above all, agents and brokers need to test everything they do against whether it helps retain existing clients and whether it helps attract new clients, Mr. Morford said. BI

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Parties

Continued from page 26F

ally have the luxury of going to all the social events any more."

Cutbacks and expense control in their own offices adds to pressure on a risk manager's time, agreed Anton M. Kronenburg, risk manager for the city of Jacksonville, Fla.

Brokers are still entertaining their clients but now it is more focused on building personal relationships, he said. For example, some brokers are more likely to host a private dinner for risk managers with their spouses, Mr. Kronenburg said.

And, despite the cutbacks, there is still a lot of competition among brokers to entertain clients at conferences like RIMS, said Ms. Oblinger of Minet.

Minet has hosted small dinners but is now planning to host a larger event to give clients an opportunity to meet each other, she said.

Brokers are also redirecting some of their marketing efforts away from entertainment toward education, said Mr. Murphy of A&A.

Brokers are now keen to provide additional services and niche products, agreed Stephen M. Wilder, vp-risk management at the Walt Disney Co. in Burbank, Calif. They realize they cannot differentiate themselves simply by buying a nice dinner, he said. BI

Trends

Continued from page 26K

"The overall marketplace has not fallen off the map. It's softening gradually and almost predictably. There's not a tremendous amount of volatility," he said.

Mr. Fiske believes now is a good time for some producers to switch to fee-based services. Fees eliminate the ups and downs of commissions, and Sedgwick does not foresee an upturn in commissions in the near future.

The growth of self-insurance and the alternative market also is playing a part in keeping the market from hardening, the report said.

"The alternative insurance market component is approximately 43% of the total (market)," the Sedgwick report stated. "This percentage has grown steadily over the past 10 years, and it will probably continue to grow, although not as rapidly as in the past unless significant dislocation takes place in the conventional market."

Now is a good time for producers to tap into the alternative market, Mr. Fiske said. Risk retention groups and purchasing groups give producers an opportunity to specialize in a particular niche.

"The days of the general producer are gone," he said. "Purchasers are looking for someone who understands their business."

But finding insurance for niche clients should not be limited to the alternative market. Insurers are interested in gaining new business and looking at ways to maintain profitability as investment income continues to slide.

"Even with $15.7 billion in catastrophe losses during 1994, the declining investment gains still exceeded all underwriting losses," according to Sedgwick's report.

Investment gains, including realized gains, fell 18.2% in 1994 to $34.7 billion from $42.4 billion recorded in 1993. The investment income portion from interest and dividends increased slightly last year, while realized capital gains plummeted 82.7% to $1.7 billion from $9.8 billion. That drop was precipitated by rising interest rates and higher bond costs.

Insurers are interested in new areas that will produce revenue, Mr. Fiske said. Now is a very good time for producers to approach them with unique client markets in need of coverage.

As for mergers and acquisitions, there was about $5.7 billion in activity during 1994, the Sedgwick report states. That exceeded "the 1988 level of $5.6 billion when junk bond financing and hostile takeovers were in fashion," the report said. There were 65 transactions last year, up from 33 transactions valued at $1.9 billion in 1993. While not offering a projection on mergers and acquisitions, Sedgwick says the industry will continue to react to economic factors in 1995.

Industry consolidation does not always help a producer, however.

Mergers and acquisitions often require agents and brokers to scramble, either in attempts to secure the "trophy accounts" of a competitor or to assure their clients that gaps in their coverage will not result from the insurers' consolidation.

"As companies go through changes, it can impact agents adversely because all of a sudden the ground rules change," Mr. Sturges said. "Conversely, it may open up a few opportunities."

Sedgwick anticipates a slightly higher number of insurer insolvencies in 1995, especially if voluntary runoff is considered. In 1994, there were nearly 20 property/casualty insolvencies totaling more than $10 billion. Sedgwick projects that more than 25 P/C insurers will become insolvent this year, totaling more than $15 billion.

"If the current trend for consolidation—Home business into the Zurich, Continental into CNA—continues, we will see some long-term names leaving the U.S. domestic marketplace," the report states. "This will pose a whole new area in the solvency evaluation process if it is allowed to continue, as the financial strength of a company's parent or pool participation cannot be relied upon solely."

Free copies of the survey are available from Sedgwick James Inc.'s communications department, 5350 Poplar Ave., Memphis, Tenn. 38119.

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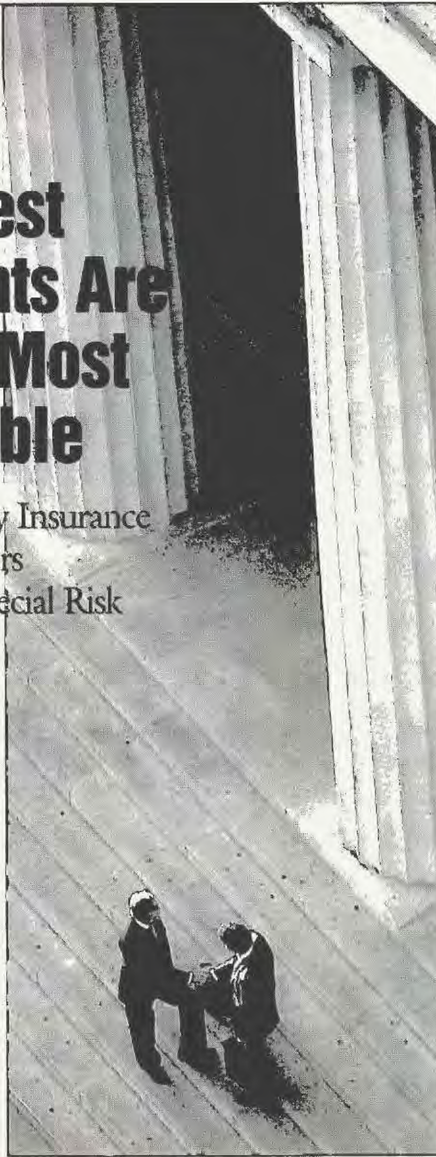

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ADVERTISER INDEX

Issue of July 3

ADVERTISER	PAGE #
A. I. Credit	26F-G
Brownyard Group	26L
Business Insurance	26K
EBP Health Plans	26I
Jamison Special Risk Inc.	26L
Lee & Mason	26J
Montgomery & Collins	26E
Paige-Ruane, Inc.	26H
SMIS, Inc.	26J
Standard Insurance Co.	26D
Sun Life of Canada	26B
Tri-Star Insurance Services	26J
Winterthur Reinsurance Corp.	26C

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	DMO Standards	1994 Actual Results
I. Access/Credentialing		
a. Percentage of members with 2 dentists in 10 miles	95%	91.0%
b. Percentage of Dentists credentialed bi-annually	100%	81.1%
c. Open office percentage	92%	82.2%
d. Annual Dentist Retention	94%	94.8%
e. Number of GPs per 1,000 members	4	3.2
f. Number of Specialists per 1,000 members	2	2.0
II. Member Satisfaction with DMO		
a. Overall Satisfaction with DMO	95%	91.1%
b. Annual complaints per 1,000 members	47	44
1. Appointment Availability Access	25	21
2. Dental Office Interpersonal Relations	15	17
3. Office Aesthetics	2	1
4. Quality of Care Issues	5	5
c. Member Disenrollment from DMO	5%	7.8%
d. Member Services satisfaction	95%	94.1%
e. Group Client Lapse Rate	5%	4.2%
III. Member Satisfaction with Dentist		
a. Explains Diagnosis/Treatment	95%	91.7%
b. Satisfied with time dentist spends with patient	95%	88.5%
c. Confidence in Dentist's Care	95%	90.3%
d. Satisfied with hygienist and staff	95%	92.2%
e. Dentist scheduled recall appointments	95%	79.5%
f. Staff was courteous	95%	95.3%
g. Facilities were clean and well kept	95%	97.8%
h. Dentist wore mask and gloves	95%	97.0%
i. Dentist took medical and dental history	95%	94.5%
j. Member received convenient appointments	95%	82.8%
k. Dentist holds convenient office hours	95%	90.9%
l. Waiting time in office was reasonable	95%	93.6%
m. Dentist responded in 24 hours to emergencies	95%	87.1%
n. Overall satisfaction with Dentist	95%	91.5%
IV. DMO Service		
a. Member Services abandon rate	5%	7.2%
b. Member Services calls answered in 45 seconds	90%	74.0%
c. Percentage of claims paid in 15 calendar days	85%	88.3%

V. Quality of Care	DMO Min. Standards	DMO Results	Indemnity Norms
a. Percentage of children with annual fluoride applications	75%	30.8%	24.4%
b. Percentage of children with annual sealant application	50%	11.7%	7.6%
c. Annual frequency/1,000 members (all)	1,000	543	539
1. Exams	600	524	376
2. X-rays	1,000	483	[illegible]
3. Prophylaxis	250	216	[illegible]
4. Amalgam restorations	75	84	86
5. Resin restorations	35	4[illegible]	38
6. Endodontic procedures	75	67	[illegible]
7. Root planning and scaling	10	10	17
8. Other periodontic procedures	75	82	88
9. Oral surgery procedures	40	21	79
10. Crowns	10	3	10
11. Dentures			

Overall Grade B+ John LeDell

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ASK A CASUALTY ACTUARY

Gauging the frequency of actuarial studies

Q **What factors should be considered in deciding how often to have an actuarial study performed?**

A Apart from situations where statutory requirements dictate the frequency of actuarial evaluations of reserves, there are several practical considerations that can influence how often such evaluations should be performed.

First, the more conservatively funded the self-insured reserves are, the less frequent should be the need for an actuarial reserve evaluation.

Suppose the target range for the reserves is a confidence level of 75% to 85%. If the latest actuarial evaluation indicated that reserves were at a 95% confidence level and if funding for current year losses were made at a high confidence level, the need for an evaluation every 13 months would be low. In such a situation, it might make very good sense to complete an actuarial evaluation only once every two or three years.

In that case, however, it would be advisable to monitor actual reported losses and paid losses against the projections contained in the latest actuarial evaluation. Adverse deviations in either of these losses might warrant completing a new evaluation ahead of schedule.

Second, the more volatile retained losses are expected to be, the more frequently an evaluation should be completed.

Several factors affect the degree of unpredictability of total retained losses. The most important are: the type of claim involved; the amount of the self-insured retention; how many claims there are; how mature the self-insurance program is; the presence or absence of frequent key claims personnel changes in the third-party claims administrators; and any significant changes in the legal and social environment affecting the filing and settlement of claims.

Third, the less financially capable of handling the volatility of self-insured losses the organization is, the more frequent should be its actuarial reserve evaluations.

If the worst case situation for retained losses would not result in a noticeable effect on the bottom line, then the need for frequent evaluation is low. Other considerations, such as the need to more accurately evaluate the optimal SIR level, or simply to meet reporting requirements, may create a need for an actuarial review where one is not needed to assure the adequate funding of self-insured liabilities.

Let's look further at the key factors affecting the variability of retained losses:

- Property losses typically are reported and settled quickly. The absence of a "long tail" for property claims minimizes the need for actuarial review because incurred-but-not-reported claims reserves are typically small.
- The higher the SIR, the greater the percentage swings that actual losses can take from anticipated levels. This increases the need for an assessment of the degree of variability of total loss reserves and for more accurate estimates of what those reserves would be at higher confidence levels.
- When estimating current funding for a self-insured property program with a high SIR, an actuarial review can help to produce appropriate estimates at higher confidence levels. Although property claims generally settle quickly, their sheer magnitude can be as large and variable as liability claims.
- The greater the claim volume is, the greater the predictability of losses is. As a consequence, small self-insurance programs generally need frequent actuarial reviews more than larger ones. However, a high volume of claims does not necessarily make the task of developing and trending losses any easier.

In other words, large programs need actuarial review as much as small ones; it is just that smaller ones probably need review more frequently because their results can change so dramatically over a short period of time.

- If the total claim volume is low and the SIR is relatively high, ultimate losses more likely will be underestimated because no provision has been made for the late reporting of large claims. Typically, no such provision will be made because no large claims have been reported to date.
- Most self-insurance programs have a greater need for frequent review during their earlier years than during their more mature phases. During the early years, the degree of loss development more likely will be underestimated unless an actuarial review is performed.
- Any time there are significant shifts in the legal and social environment affecting claims, the need for more frequent monitoring and evaluation is heightened.

One final consideration should be mentioned. Many organizations need to complete their financial statements soon after the close of their fiscal year. Waiting until that time and asking an actuary to rush through an evaluation at a time of the year when they are already swamped with other demands is often not the best choice.

For that reason, it is not uncommon for an evaluation to be completed with data from one or two quarters before the close of the fiscal year. Sometimes that evaluation is set up to be quickly updated with year-end information once it becomes available. In other situations, an evaluation which is completed before the close of the fiscal year may be designed to provide estimates as of the fiscal year close, and no updating occurs.

As this discussion indicates, many factors dictate how often an actuarial review should be performed. There are no simple rules of thumb that can be made up to answer this question. BI

Would you like advice from an experienced colleague on a risk management, benefit management or actuarial problem? Four quarterly 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 casualty actuarial issues is written by Richard E. Sherman, president of Richard E. Sherman & Associates Inc. in Ashland, Ore. William J. Miner, an actuary with Watson Wyatt Worldwide 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 Dennis J. Nirtaut, managing director of compensation and benefits for Arthur Andersen & Co. S.C. in Chicago, fields questions on benefit plans.

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.

Receiving juries' messages

Warning signs may signal exposure to punitive damages

By Lori S. Nugent

Punitive damage awards are being assessed in record amounts by juries that increasingly are being asked to "send a message" to corporate America. These awards are being assessed against manufacturers in connection with injuries allegedly stemming from products sold to consumers. In addition, larger punitive damage awards are being assessed against insurance companies for failure to resolve claims in good faith.

Federal and state tort reform efforts may help restrain the assessment of punitive damages, though reform efforts often are limited to product liability claims. Federal tort reform legislation faces a sizable hurdle, as President Clinton has indicated a willingness to veto legislation containing punitive damage limits. In this context, the risk of substantial punitive damage awards will likely remain despite current tort reform efforts.

Four factors serve as warnings to risk managers, corporate counsel and others that a substantial punitive damage award may be assessed:

- **Warning: Serious Injury**

The first warning factor affecting punitive damage exposures is the extent of the plaintiff's injury. If the punitive damage plaintiff is severely injured, a jury may award punitive damages because it feels sorry for the plaintiff. The sympathetic impact is heightened if the plaintiff resides in the jurisdiction where the case is tried, and the defendant is perceived as an outsider.

- **Warning: Bad Conduct**

The second factor to be considered in evaluating punitive damage exposure is the defendant's conduct. To counter the natural sympathy that a jury may feel toward an injured plaintiff, the defendant's conduct often provides the best defense. This factor includes the defendant's conduct both before and after the injury.

For example, a plaintiff's ability to obtain a sizable punitive damage verdict is enhanced to the extent that it can be persuasively argued that the defendant was indifferent to the consequences of its conduct or even intended to cause injury. This intent to cause injury, depending upon the standard of conduct and burden of proof in the relevant jurisdiction, may be established in various ways.

If the defendant actually intended to injure the specific plaintiff, it is exceedingly likely that a substantial punitive damage verdict will result. If, however, the defendant merely failed to

See **Punitive** *on next page*

Punitive

Continued from previous page
consider the consequences of its actions, the chances of avoiding punitive damages are improved.

In very simplistic terms, if the jury is angry at the defendant because of its conduct, a large punitive damage award should be anticipated. On the other hand, if the conduct of the defendant, though regrettable, generally was reasonable, an effective defense to punitive damages may be mounted.

The defendant's post-incident demeanor also is a powerful weapon in diffusing the jury's sympathy toward an injured plaintiff. For example, if it can be established that the defendant took reasonable steps to "do right" by the injured claimant, and the claimant has refused those efforts, it may be possible to establish that the plaintiff is merely greedy.

Similarly, if the defendant's conduct establishes that it regrets the incident that caused the injury, a jury may be persuaded that punitive damages are not needed or that a lesser amount of punitive damages will suffice.

- **Warning: Tough Jurisdiction**

The third warning factor that affects the severity of a punitive damage award is the jurisdiction in which the case is proceeding. Certain jurisdictions in the United States have become notorious for their assessment of very substantial punitive damage awards.

Alabama, Florida, Georgia, Kansas, Louisiana and Texas are states that are known for large punitive damage verdicts. Also, certain specific jurisdictions, such as Cook County, Ill., and San Francisco and Los Angeles counties in California, are well known for assessing large punitive damage awards. When claims for punitive damages are brought in these jurisdictions, the claims should receive attention accordingly.

- **Warning: Hot-Shot Plaintiff's Counsel**

The fourth warning factor that can impact the assessment of punitive damages is the competency of the plaintiff's counsel. Certain members of the plaintiffs bar have consistently obtained substantial punitive damage awards. To the extent that any of these lawyers appear on any pleading filed with the court in the case, it is imperative that the claim be considered very seriously.

Also, lesser-known counsel may be capable of obtaining substantial punitive damage verdicts if they are approaching discovery in a very detailed and skillful manner.

In short, if the plaintiff is well represented, all of the relevant facts are likely to be discovered. If any of the facts might anger a jury, and the plaintiff's counsel is effective, the punitive damage exposure is substantial.

Although runaway punitive damage verdicts are becoming more frequent, steps can be taken to limit punitive damage exposures. Awareness of the four warning factors will assist in the early identification of claims that may result in substantial punitive damage verdicts. Once these claims are identified, defensive measures should be taken.

Knowing the warning factors for punitive damages is the first step in controlling this exposure. But the first step is meaningless unless internal procedures require periodic claims reviews to identify claims in which any of the warning factors are present. After claims presenting punitive damage warning factors are identified, special defensive measures should be taken. For example, heightened internal scrutiny of claims-handling decisions is necessary when these warning signals appear.

Early efforts to resolve these claims are essential to limit punitive damage exposures. When possible, these claims should be resolved during the earliest phases of litigation, or even before litigation is filed.

If claims handlers are unable to resolve these claims at a relatively early stage, senior management should review the settlement efforts taken. When indicated, additional settlement efforts should be attempted.

Finally, if it is not possible to obtain an early resolution of the claim, a focused punitive damage litigation plan is needed. Absent a specific defense plan, opportunities to limit exposures to punitive damages are often missed. Through early implementation of carefully considered defensive measures, punitive damage exposures effectively may be limited. BI

Ms. Nugent

Lori S. Nugent is a partner in the Chicago office of law firm Blatt, Hammesfahr & Eaton, specializing in the resolution of complex insurance and reinsurance disputes. She is co-author of "Punitive Damages: A State-By-State Guide to Law and Practice," and "Punitive Damages: A Guide to the Insurability of Punitive Damages in the United States and Its Territories."

Putting responsibility back into regulation

Books & Ideas

"The Death of Common Sense"
By Philip K. Howard
Published by Random House Inc., New York, N.Y. 10022; 212-751-2600
$18.00

By Mark A. Hofmann

The fact that a slender volume on regulatory law could reach the top of the bestseller lists demonstrates that a lot of people think there's a lot wrong with our current federal system of regulation.

Those who still aren't convinced that the nation's approach to regulation requires change should have their faith shaken by that short book, "The Death of Common Sense." Where many critics of federal regulation have been content to recite horror stories—many of which can't withstand close examination—Philip K. Howard takes his analysis a step further to explain why the law often seems at odds with itself.

It's not that Mr. Howard—himself an attorney—avoids retelling the tales of regulation gone awry. He has more than enough stories—including such examples as how bricks got to be labeled as poisonous objects and how Mother Teresa's plan to set up a homeless center in New York was sidetracked because regulations required that such a shelter have an elevator, a machine the nuns would never use—to leave readers shaking their heads in disbelief. Mr. Howard's genius is putting these anecdotes in a larger context. That context is summed up in the book's subtitle—"How Law Is Suffocating America."

"Our regulatory system has become an instruction manual. It tells us and bureaucrats exactly what to do and how to do it. Detailed rule after detailed rule addresses every eventuality, or at least every situation lawmakers and bureaucrats can think of. Is it a coincidence that almost every encounter with government is an exercise in frustration?" asks Mr. Howard.

"We seem to have achieved the worst of both worlds: a system of regulation that goes too far while it also does too little.

"This paradox is explained by the absence of the one indispensable ingredient of any successful human endeavor: use of judgment. In the decades since World War II, we have constructed a system of regulatory law that basically outlaws common sense," he writes.

According to Mr. Howard, the search for legal certainty has led to a rejection of "flexible" law, such as that embodied by the Constitution. The Constitution, the blueprint for running the country, is shorter than the Environmental Protection Agency's rules for handling benzene, which is simply one of countless regulated substances.

But the drive for certainty has had a decidedly un-American result. "Modern regulatory law resembles central planning. Instead of an economist in Moscow making complex flowcharts on how to harvest Siberia's wheat, generally forgetting something like spare parts for delivery trucks, we have highly detailed laws and rules, often written years earlier, that catalog the conditions for our action."

He adds that federal regulations now contain more than 100 million words.

The sheer bulk of regulations has a perverse effect. Regulations are designed to protect people. But, according to Mr. Howard, "the quest for protection through certainty results in arbitrary power." For example, who can possibly know all of the rules enforced by the Occupational Safety and Health Administration?

The growth of the regulatory morass also allows public officials to avoid having to make a decision. In a chapter entitled "The Buck Never Stops," Mr. Howard cites several examples showing that officials who attempt to circumvent the process to actually get things done, and get them done cheaper and faster, are subject to official censure rather than praise.

And who profits from the tortuous and often seemingly endless process of process? Mr. Howard's own profession.

"Litigation is the insiders' game within the game. It is a world in which lawyers manipulate the detailed rules of procedure to harass the other side and delay for years any reckoning for their clients' conduct."

As an example of how things should work, Mr. Howard notes with approval the decision of Gov. Pete Wilson, R-Calif., to suspend procedural guidelines for government contracting in the wake of the Northridge earthquake so that "instead of a four-year trudge through government process, the Santa Monica freeway was rebuilt in 66 days, to a higher standard than the old one."

He points out that "from the law's perspective, the Los Angeles repair project was a nightmare of potential abuse. . . .When the rule book got tossed, all that was left was responsibility. State officials took responsibility for deciding what contractors would be allowed to bid, and they knew they would be accountable if the contractors proved unreliable."

Mr. Howard spends relatively little of the book on solutions to the problem of over-regulation, but what he does have to say is rooted firmly in basic American values.

"Decision making must be transferred, from words on a page to people on the spot. This requires legal frameworks that are open, not open and shut. . . .Law should articulate goals, award subsidies, allocate presumptions and provide mechanisms for resolving disagreements, but law should almost never provide the final answer. Life is too complex. Our public goals are too complex. Hard rules make sense only when protocol—as with the rules of a game, or with speed limits—is more important than getting something done."

Mr. Howard's carefully crafted case for a return to common sense recalls an earlier "Common Sense," one written by a colonial rabble-rouser named Thomas Paine.

Although Mr. Howard's volume doesn't call for the overthrow of one form of government for another, it maps out a road to reform that U.S. government, business and the legal profession can refuse to tread only at their own peril. BI

Mark A. Hofmann is an associate editor in the Washington bureau of Business Insurance.
He covers property/casualty insurance, Washington political and legislative action and product liability reform.

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Market replaces some capacity lost in U.S.

By GAVIN SOUTER

London report

Financial problems experienced by some insurers in London and the United States are adding spice to an otherwise bland renewal in the London market, brokers and underwriters say.

Highly protected risk policyholders, suffering rate increases and reduced coverage in the United States, are turning to London underwriters for coverage, they report.

And the decision by ACE Ltd. to cut its integrated occurrence capacity due to its poor experience has opened a door for liability underwriters in London, they say.

But some other new business is likely to be scared away from London by the problems at Lloyd's of London, brokers and underwriters say.

These factors and competitive market conditions in the United States for most classes of business combined to produce a flat renewal in London, they say.

Casualty rates at best were flat, while property rates for mainstream business outside of catastrophe areas also remained soft.

After several years of suffering financial woes of its own, the London market benefited during this renewal due to problems in the United States.

The HPR underwriters suffered poor results in 1994 and reacted by raising rates and withdrawing coverage for accounts that had suffered large losses (*BI*, May 22).

In particular, Industrial Risk Insurers in Hartford, Conn., which posted a net loss of $163.3 million in 1994 after turning a profit of $32.5 million in 1993, often purposefully is walking away from policyholders that will not pay significantly higher rates.

Gail P. Norstrom, IRI's president and chief executive officer, has said the insurer will continue to do so for the rest of this year.

IRI traditionally has given broader coverage than is available from other HPR underwriters in the United States, and policyholders are turning to London to replace the IRI coverage, the brokers say.

And the recent takeover of Home Holdings Inc. has led to a further reduction in capacity for some U.S. risks, they say.

"The IRI and the Home have been the main reasons why London is getting more business," said David Warman, managing director of non-marine at Alexander Howden Ltd.

However, London underwriters are seeking more information on the HPR risks than they previously have requested for other property risks in the United States, such as the location of fire walls and other safety concerns, he said.

And the deductibles applied remain high, Mr. Warman said.

Risk managers who previously only had sought coverage in the domestic U.S. market now are seeking replacement coverage in the United States, London and other European markets, another broker said.

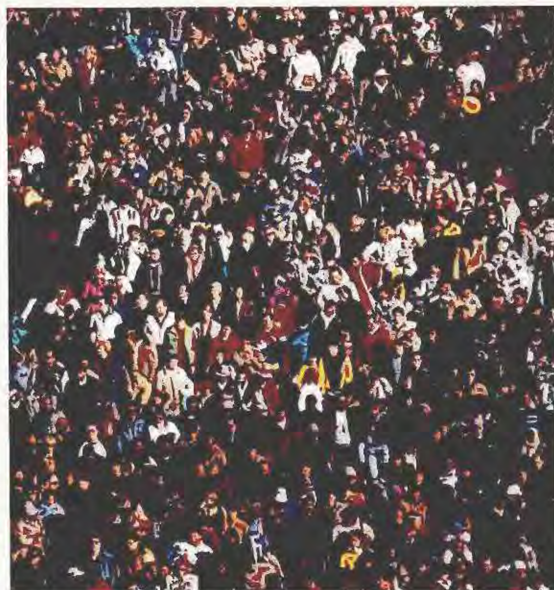
"Risk managers that have not marketed their business outside of the U.S. are now doing that and it's high-class business. The rates are low, but it's good quality," the broker said.

The flow of new HPR business into London is still just a trickle, but if U.S. insurers continue to have problems underwriting at previous levels, it could become a firmer trend, the broker predicted.

London also is benefiting from other factors developing in the

See **London** on page 34

The revolution is no longer a secret.



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London

Continued from page 32

United States, said Charles Burnett, manager of North American property at Willis Faber & Dumas Ltd.

"Chief financial officers at companies seem to be taking a much closer interest in insurance," he said.

CFOs are willing to consider international markets more readily than some risk managers and use non-HPR insurers in London if they can get a cheaper price, Mr. Burnett said.

But, outside of catastrophe coverage, London is seeing little other new property business from the United States, he said. "On the general non-catastrophe property business, London ain't seeing it." Most of that business is remaining in the domestic U.S. market.

Even on catastrophe coverages, the price increases of recent renewals seem to be petering out, he said.

"Earthquake is still pretty hard and the prices are not coming down, but they are not going up, either," Mr. Burnett said.

Windstorm rates also are declining for some risks, he said.

Rates for windstorm coverage in Florida and for non-catastrophe exposures in other areas of the United States are decreasing by an average of 5% to 10%, said Mr. Warman of Alexander Howden.

Earthquake rates show little change and the capacity for earthquake coverage in London remains about $50 million per risk, he said.

However, some clients that suffered Northridge losses still are paying more than policyholders that did not suffer a loss from the January 1994 quake, even though this is the second renewal period for them, Mr. Warman said.

For example, two clients in California in the same industry and with similar risks had premiums varying by $3 million due to different Northridge experiences, he said.

But, generally there are no signs of a U.S. market turn, said Paul Philo, managing director and deputy chairman of Sphere Drake Insurance Co. P.L.C. in London.

"There is little at this moment in time to indicate any upturn in the cycle," he said.

London companies are benefiting to a limited extent from the troubles surrounding Lloyd's, Mr. Philo said.

Some U.S. policyholders are asking their London brokers to replace some Lloyd's syndicates with other insurers and some of this property/casualty and reinsurance business is beginning to be transferred to companies in London, he said.

However, this small windfall for the London companies is counterbalanced to some extent by the reluctance of some U.S. policyholders to seek coverage outside the United States due to the problems at Lloyd's, Mr. Philo said.

"There are a lot of brokers and buyers out there who are waiting to see the substance of the plans to change Lloyd's," he said.

Lloyd's syndicates generally are managing to hold onto the renewal business they write but probably are not seeing some new business because of the bad publicity surrounding the market, said David Foster, underwriter for syndicate 1145, managed by Janson Green Ltd.

"It's hard to tell how much new business we do not see, but there has to have been some. But overall, the major brokers support London and we have been holding our renewals particularly well," he said.

The renewals for casualty business also have had to compete with a soft market in the United States, Mr. Foster said.

For professional liability and directors and officers liability business, rates have fallen by about 7%, he said.

In particular, professional liability coverage for lawyers is very competitive, Mr. Foster said.

"It varies, and some people do get increases, but if you have good, quality mainstream business, there's a lot of capacity out there," he said.

Professional liability business that currently is written in the London market is more likely to remain there than some other casualty lines, said Stephen Burnhope, underwriter for syndicate 1212, managed by Spreckley Villiers Burnhope & Co. Ltd.

"The coverage is so crucial to clients and continuity is seen as important," he said.

Professional liability is a complex coverage and policyholders often are concerned that changing underwriters might create gaps in their coverage, Mr. Burnhope said.

"And 1986 is not so far back that people forget about the turmoils in the market then. Nobody expects that to happen now but they know that the business is cyclical," he said, referring to the liability capacity crisis that led to the formation of Bermuda-based ACE Ltd. and X.L. Insurance Co. Ltd.

Excess liability underwriters in London are gaining some new business due to ACE Ltd.'s decision last year to halve its capacity for integrated occurrence coverage, brokers say.

ACE reduced the capacity from $200 million to $100 million last year (*BI*, Sept. 26, 1994).

"There is a shortfall as a result of that decision by ACE, and some of it is being taken up by London," said Peter Somerville, managing director of North American casualty at London-based broker Lowndes Lambert Group Holdings P.L.C.

London underwriters are prepared to offer the same coverage as ACE while most U.S. insurers offer only more restricted coverage, so London is winning some new excess liability business, said Mike Warwicker, managing director of non-marine at Alexander Howden Group Ltd.

"Other markets offer some coverage but it doesn't always suit what the clients want. London is somewhat more flexible," he said.

General liability rates are falling in London due to the continued competitive market in the United States, brokers agree.

On average, rates are down by between 10% and 15%, said Mr. Somerville.

"Often that is not enough to hold onto the business," he said.

But London insurers are walking away from the business rather than cutting rates further, Mr. Somerville said.

London underwriters typically cover general liability business on a claims-made basis, but there is now an established occurrence market in London, he said.

About $15 million to $20 million of excess coverage on an occurrence basis is now available in London, he said.

"It's limited and the insurers that offer it only deal with a handful of brokers," Mr. Somerville said.

The occurrence coverage is granted only to liability risks with a relatively short tail, such as construction companies, said Mr. Warwicker of Alexander Howden. "It's restricted but there is capacity available for the right risks," he said.

Hospital professional liability rates are falling in London, Mr. Warwicker said.

"There is a glut of capacity and the business that remains in London is long term and partnership-driven," he said.

Rate decreases vary according to experience but generally are falling by between 10% and 15%, Mr. Warwicker said. BI

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Managers

Continued from page 1

We're growing a lot faster in terms of sales and headcount than is our risk level, so while we may be paying a touch more in premium, our rating structure is down," he said.

Mr. Lange said that paying a flat rate at a time when many insurers are bidding eagerly for business is acceptable.

"I know what type of competition is out there, and so do the insurers. It's a matter of honoring incumbent relationships," Mr. Lange said.

He said he will renew all programs with current insurers, which include: Allendale Mutual Insurance Co. for domestic property; Chubb Corp. for international property and casualty; ITT Hartford Group Inc. for primary domestic casualty, auto liability and workers comp; and The St. Paul Cos. Inc. for software errors and omissions.

But other risk managers have been more aggressive at renewals and have put their insurance contracts out to bid, which for many has resulted in premium and rate reductions.

For instance, Frank E. Locke, administrator-risk and insurance at Oklahoma Natural Gas in Tulsa, Okla., said the market has "been soft and user-friendly for quite a while. Insurers are scrambling for dollars."

Realizing this, Mr. Locke put his company's excess and directors and officers liability programs out for bid this renewal season.

He previously had placed these programs with Associated Electric & Gas Insurance Services Ltd., a Bermuda-domiciled energy captive, but received better quotes from American International Group Inc. on the excess liability and Chubb on the D&O.

Gregory Hidden, director of risk and insurance services with American General Hospitality Inc., a Dallas-based hotel management firm, said bidding out his property program, which covers about 100 U.S. hotels, resulted in significant improvements to the terms he was offered by his former insurer, Affiliated FM Insurance Co. of Johnstown, R.I.

Mr. Hidden explained that Aetna Casualty & Surety Co. took over American General's property program, including coastal windstorm, with no sublimits on individual properties. "We're only responsible for a deductible equal to 2.5% of property value, while all other carriers wanted sublimits, some as low as $100,000. It doesn't take a genius to realize that that's not a very good deal."

Although the market still may be getting its price on property, terms seem to be improving in many cases.

Robert F. Lee, director of risk management for Coca-Cola Bottling Co. Consolidated in Charlotte, N.C., said because insurers are charging a premium rate on property, they are more willing to offer better terms and conditions. "The buyer is paying the insurers' prices; we have to. But we want satisfaction on terms. We got excellent terms from the (Royal Insurance Co.) earlier this year," he said.

Robert W. Esenberg, risk manager for the city of Virginia Beach, Va., a town considered susceptible to heavy windstorms, acknowledged that property insurance pricing is his "biggest concern," but said underwriters have been "very willing to work with us, and there were no major surprises."

The rate increase Virginia Beach paid on its renewal through United States Fidelity & Guaranty Co. in June was "really minimal," he said.

Some risk managers have been aggressive at renewals and put their insurance contracts out to bid, which has resulted in premium and rate reductions.

Virginia Beach had problems with its property program after Hurricane Andrew hit Florida in 1992 (*BI*, July 4, 1994), Mr. Esenberg explained during last year's renewal season. He said Fireman's Fund Insurance Co. chose not to renew the city's lower layers despite the fact that the hurricane struck hundreds of miles to the south. USF&G picked up the policy at a rate nearly 100% higher than the previous rate, but renewed it at only an 8% increase last year, and even a smaller increase this year.

In Canada, the property market was good for Claude Boudreault, manager-insurance and risks with SNC Group Inc., a Montreal-based global contractor.

He said he just renewed a $60 million all-risks property insurance program for the company's headquarters and two manufacturing sites in Quebec for $600,000.

Mr. Boudreault placed the coverage mostly with Lloyd's of London and other London markets. "It's exactly what we paid last year," he said.

While windstorm exposure may be shrinking as a driving force of property insurance rate increases and capacity shortages, earthquake coverage has become the single biggest driving force on the property side.

And for risk manager who have had to secure a sizable earthquake insurance package, this renewal period has not been very enjoyable.

For example, Sue Anne Mitro, manager-risk and insurance for The Hillman Co., a Pittsburgh-based holding company with extensive real estate exposures, politely characterized her June 1 renewal as "interesting."

Rates for Hillman's coverage on California earthquake below probable maximum loss levels doubled, she said. But for layers above the PML, "you can probably fill them twice if you want to. There seems to be capacity on this, but those layers up to PML are in turmoil. You just can't put it together," she said.

"We're looking at layers offered by insurers of $500,000 and I'm trying to fill $50 million worth of quake. My exposures dropped by 50% in California, but I'm paying the same premium for the layers up to PML," Ms. Mitro said.

This, she said, is very disappointing considering that the vast majority of her properties were built after 1985 "and should be

See **Managers** *on next page*

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Managers

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very attractive to underwriters. But it doesn't matter. You calculate your PML and they charge a rate per million whether its a hovel or a first class building."

Ms. Mitro said both Bermuda and London—which she doesn't use—have earthquake capacity, "but again, it's for upper layers and it's expensive. It's a flat rate whether you have great buildings or lousy ones."

While property insurance is still a challenge for some risk managers, all forms of casualty are generally soft, and in some cases, less expensive than a year ago, risk managers report.

"Our directors and officers liability came up in May and we renewed in plain vanilla fashion at a 5% reduction," said Dun & Bradstreet's Mr. Riley.

Mr. Hidden of American General said he has been with Fireman's Fund for three years for the company's general and liquor liability, and that those programs renewed with no problem. His $25 million umbrella program, meanwhile, renewed with Transamerica Insurance Co. at a flat premium.

Umbrella and excess liability also were quite easy for Mr. Lee of the Coca-Cola bottling group. He renewed his $5 million primary policy, which is written by Genesis Insurance Co., and a $200 million layered excess program without trouble.

"There's no capacity problem at all. Renewal pricing was attractive. We're also expecting some workers compensation decreases soon. Workers comp is maxed out," he said.

Workers comp, along with general and auto liability, was renewed in May through CNA Insurance Cos., Mr. Lee said. He noted that six years of being with CNA helped him secure favorable pricing.

"We're on a high retention program and pricing has remained the same. But given inflation and increases in exposure, that's equivalent to a decrease."

A new line of casualty seeing some heated activity is employment practices liability coverage, risk managers say.

Mr. Hidden said that after a long review, he purchased the coverage from Reliance Insurance Co. for the first time this summer.

"The legal activity in this area has really become hot. So far, it looks like a good buy. Without getting into the specifics, we paid in the low six-figures for coverage on 9,000 employees. We've already had four suits and expect 10 to 15 by the end of the year. It's volatile doing business today and litigation costs can easily exceed settlement costs," Mr. Hidden said.

Mr. Lee also renewed employment practices liability coverage with Chubb. "The terms were favorable. We're paying the same premium, but our coinsurance is down 50%. We also got a two-year policy, which is very new. We just asked, and they complied."

Kohler Co., a plumbing products company based in Kohler, Wis., also renewed its primary and auto liability and workers comp recently, and found that rates decreased a few percentage points, said Harold Lang, director of insurance and risk management.

Mr. Lang credited the company's aggressive efforts to reduce accidents and the competitive market for the lower costs.

While the majority of risk managers reported favorable renewals, those looking into specialty lines found the going a little rougher.

Mr. Boudreault of SNC Group said the market for builders risk and political risk coverage in foreign countries definitely is hardening, and he attributes that to uncertainties surrounding the future of Lloyd's.

And "recent product liability problems" have driven the market to the hard side for pharmaceutical and chemical companies, said Tom Douglas, director of insurance and risk management at Merck & Co. Inc. in Whitehouse Station, N.J.

Nevertheless, Mr. Douglas said he expected no problems on his July 1 renewal for general and product liability, which is insured in layers by about 30 companies throughout the world. BI

Health

Continued from page 1

vice options and increased employee cost-sharing are two factors responsible for the moderation in health plan costs, he said.

A slowdown in health care inflation is also responsible for keeping health plan premiums in check at midyear.

The medical component of the Consumer Price Index rose only 4.6% during the 12-month period ending in May, compared with a general inflation rate of 3.2% during that same period.

The rate of medical inflation is slightly better than last year around renewal season, when the medical component of the CPI rose 4.9% during the 12-month period ending in April, compared with a general inflation rate of 2.4%.

But the biggest factor keeping premiums in check is the fierce competition brought on by managed care companies aggressively pursuing greater and greater market share.

"I'm not sure it's ever been more competitive, particularly for managed care lines," commented Mike Thompson, vp of financial services for Prudential Insurance Co. of America in Roseland, N.J.

The fierce competition brought on by managed care companies pursuing market share is keeping premiums in check.

"The desire by managed care players to gain market share and to position themselves for the long term has created a highly competitive market," he said.

Buyers recognize that and are using it to their advantage,' Mr. Thompson said.

Indeed, several employers report having great success with health plan renewals at midyear, particularly HMOs.

"Overall, our numbers are looking awfully good," said Fred Hamacher, vp of compensation and benefits for Dayton Hudson Corp. in Minneapolis.

The retail giant's Mervyn's stores, based in Hayward, Calif., currently are negotiating premiums for midyear, and their HMO premiums look "very attractive," he said.

The cost of Dayton Hudson's self-insured indemnity plan business, on the other hand, is up about 8.6% across the board, he

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noted.

Helen Darling, manager of health care strategy and programs for Xerox Corp. in Stamford, Conn., also said premiums for 1996 look very favorable.

Among the 206 HMOs Xerox offers, 89 will renew with premium decreases averaging 0.1% to as much as 35%, Ms. Darling said. Another 58 plans will keep premiums level with 1995 rates.

Very few of Xerox's HMOs sought premium increases, and those that did ranged from 2% to 3% above 1995 rates, Ms. Darling said.

Meanwhile, employer coalitions on both coasts also are negotiating premium decreases successfully from HMOs for 1996.

For example, the Massachusetts Healthcare Purchaser Group, an association of public and private purchasers that provide health care to more than 1 million individuals, is demanding a 3% decrease for 1996 from health plans in the state and is likely to get it (*BI*, June 12).

And the Pacific Business Group on Health negotiated 1996 rate reductions averaging 4.3% with 15 HMOs covering 330,000 active employees in California (*BI*, June 26).

"As a member of a large coalition, you have a little more leverage, but it really depends on how the medical marketplace is divided up," said Dave Wilson, managing director of Apex Management Group in Princeton, N.J.

"HMOs are tremendously price sensitive, and in a lot of areas prices are dropping," Mr. Wilson said.

But, "prices have the most room to drop in markets where HMO enrollment isn't at the saturation point.

In Northern California, for example, decreases had been averaging 5%, but they are dropping back" as more and more people enroll in HMOs.

Competition, coupled with increased administrative efficiencies and better cost containment strategies, is enabling Oakland, Calif.-based Kaiser Permanente to reduce HMO premiums in the third and fourth quarter of 1995.

Jim Taul, director of pricing for the nation's largest HMO, said premiums are decreasing an average of 4.5% to 5.5% in virtually all of the regions Kaiser serves. Two-thirds of Kaiser's business is in California, however, and Mr. Taul noted that rates are decreasing 6% to 7% in Southern California, compared with reductions of 3% to 4% in Northern California. "Both regions have aggressive cost containment strategies in place," he noted.

While some analysts remain bullish on HMO stocks, most agree that the HMO market likely will remain somewhat volatile based on the high level of competition.

"Premiums are decreasing not only in California, but in other parts of the country as well, particularly if a plan was overfunded and rates were out of line," commented Glenn Meister, a principal in the Los Angeles office of A. Foster Higgins & Co. Inc. "The question is, are HMOs reducing premiums to a point that is justified, or are they doing it just to gain market share? A lot of pricing today is being driven by market share."

Buck's Mr. Ferruggia agreed. "You have to try to figure out what is due to marketing vs. what is due to health care inflation. Much of what we're seeing is very competitive pricing by HMOs to gain market share," Mr. Ferruggia said.

"In some markets, there is a bit of a feeding frenzy. HMOs are intentionally investing margins to gain members," Mr. Ferruggia added.

"They are not intentionally underpricing, but they are willing to forgo margins they once maintained and that's obviously suppressing rates," Mr. Ferruggia added.

"We are being squeezed a little bit by the competition," said Frank Keenan, vp and actuary with SANUS Corp. in Fort Lee, N.J., a subsidiary of New York Life Insurance Co. that operates HMOs in the District of Columbia, Illinois, Maryland, New York, New Jersey, Texas and Virginia. "In areas where new competitors have come in, we've had situations where we've had to drop rates to keep the business."

But that pressure to drop rates is not as heavy in all markets, Mr. Ferruggia pointed out. "In areas where there is a strongly dominant player, you'd see none of these pressures to squeeze margins."

While the pressure on HMO margins and the resulting premium reductions are good news for employers, it may be bad news for investors in publicly traded HMOs.

Earlier this year, for instance, the news that Blue Bell, Pa.-based U.S. Healthcare Inc. would reduce premiums and cut profits for the year caused HMO capitalization to plunge $3.6 billion—more than 10% of the total market value of 21 publicly traded managed care companies (*BI*, April 24).

While some analysts remain bullish on HMO stocks, most agree that the HMO market likely will remain somewhat volatile based on the high level of competition.

Consultants and insurers don't expect that premium levels will fall so low that they would fail to support future health care claims costs, though.

"I don't see any explosion on the back end," remarked Jeffrey Verney, senior vp-national accounts for CIGNA HealthCare Inc. in Bloomfield, Conn. "The premiums will have to become adequate. The challenge will be incumbent on all of us to manage medical costs down to the price on the street."

The downward pressure on rates will continue as long as HMOs and other managed care companies are able to hang onto business and maintain adequate profit levels, Mr. Keenan said. "The question becomes, though, how well can you manage the care? We're being squeezed a little right now, but we can continue" to operate effectively at current prices.

"The critical business call for every organization is figuring out how long this stability will last," noted Charles Bell, senior vp of finance and risk for Aetna Health Plans in Hartford, Conn. ■

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PROPERTY/CASUALTY

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■ The Great American Insurance Co. provides a **directors and officers liability insurance** guide for non-publicly traded companies. Request item **3202**.

■ The Illinois Insurance Exchange supplies a **directory of syndicate profiles,** including preferred terms and conditions. Request item **3203**.

■ Eagle International Associates presents a directory of **attorneys and claims adjusters** in the United States, Canada and Europe. Request item **3204**.

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■ Several fliers provided by ECS Inc. describe the **general and auto liability coverages** available to various environmental professionals. Request item **3206**.

■ International Risk Management Institute Inc. offers details on its book on methods of **alternative risk transfer**. Request item **3207**.

■ A monthly newsletter from NAC Reinsurance Corp. reviews **major developments affecting the reinsurance industry**. Request item **3208**.

■ A booklet about the requirements for **submitting a directors and officers application** is presented by the Great American Insurance Co. Request item **3209**.

■ ECS Inc. presents several fact sheets on the **environmental exposures of the general construction industry,** environmental training and insurance. Request item **3210**.

■ Eagle International Associates presents a collection of papers from a recent seminar on **litigation and claims management**, including lead paint liability, sick building litigation and various other issues. Request item **3211**.

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■ The **availability of contract surety**

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Resource

Continued from previous page

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■ ECS Underwriting Inc. offers a bulletin on **environmental exposures**. Request item **3249**.

■ A catalog from Reliance National explains its current **products and programs**. Request item **3250**.

■ A Chubb Group of Insurance Cos. booklet offers tips on **preventing the loss of integrated circuits** and other computer parts. Request item **3251**.

■ Developments in laws on the waiver of **insurance coverage defenses** by primary and excess underwriters are examined in a Clausen Miller P.C. paper. Request item **3252**.

■ Minet Inc. supplies a **contemporary guide to reinsurance**, including a glossary. Request item **3253**.

■ A Kemper National Insurance Cos. fact sheet lists resources for employers on the **Americans with Disabilities Act**. Request item **3254**.

■ A Liberty Mutual Group brochure explains **how to improve an insurance program**. Request item **3255**.

■ A Johnson & Higgins booklet reviews the insurance market and analyzes recent **trends and developments by coverage line**. Request item **3256**.

■ A **glossary of reinsurance terms** and market data are available from Minet Inc. Request item **3257**.

■ Kemper National Insurance Cos. provides a flier with tips on **preventing theft and vandalism** of equipment and machinery on construction sites. Request item **3258**.

■ **Risk management issues** are explored in a magazine from Liberty Mutual Group. Request item **3259**.

■ A Minet newsletter explores **employment practices liability** laws and litigation. Request item **3260**.

■ The **financial impact of smoking** by employees is addressed in a fact sheet from Kemper National Insurance Cos. Request item **3261**.

■ Methods of **allocating D&O loss**, new approaches and decisions from the 9th U.S. Circuit Court of Appeals are explored in this Minet newsletter. Request item **3262**.

■ Johnson & Higgins offers a manual on **preparing for and handling a property loss**. Request item **3263**.

■ A Minet newsletter spotlights myths, misconceptions and hard facts about **fiduciary liability under ERISA**. Request item **3264**. BI

Health care resource

HEALTH CARE

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■ The impact of **managed behavioral services** on health care costs is examined in a flier from Meridian Resource Corp. Request item **3102**.

■ StayWell Health Management Systems Inc. offers a **health assessment questionnaire** designed to provide instant feedback. Request item **3103**.

■ Fact sheets on ADMAR Corp.'s **maternity management program** describe prenatal development and pregnancy tests. Request item **3104**.

■ **Self-insured health care benefits management** is the focus of a newsletter from Millennium Healthcare. Request item **3105**.

■ BCS Insurance Co. provides a guide illustrating the dangers of self-insuring organ and bone marrow transplant procedures and the advantages of **participating in a transplant pool**. Request item **3106**.

■ Northwestern National Life supplies an analysis of the **healthiness of each state's population** based on factors such as lifestyle and occupational safety. Request item **3107**.

■ How case management can save employers money on **catastrophic care** is detailed in a brochure from Anthem Health. Request item **3108**.

■ BNA Books offers a fact sheet designed to help employees understand **health care and dependent care accounts**. Request item **3109**.

■ A pamphlet from Reliance National Insurance Co. provides an overview of the insurer's **provider excess-of-loss insurance** program. Request item **3110**.

■ A quarterly journal from Willis Corroon features articles on current **health care risk management and insurance issues**. Request item **3111**.

■ The **professional services management program** of Pharmaceutical Care Network is explained in a manual. Request item **3112**.

■ Duncanson & Holt Group offers a comprehensive manual on **underwriting issues in long-term care insurance**. Request item **3113**.

■ International Medical Group Inc. supplies a brochure and newsletter on **international medical insurance**. Request item **3114**.

■ A booklet by Delta Dental Plans Assn. provides a statistical profile of the **dental benefit market**. Request item **3115**.

■ An outline of **case management in the point-of-service environment** is supplied by Meridian Resource Corp. Request item **3116**.

■ A booklet on **cost management services** is offered by American Health Holding Inc. Request item **3117**.

■ Northwestern National Life features a book evaluating differences in **health care reform preparedness** in 16 U.S. cities. Request item **3118**.

■ A newsletter from Alexander Consulting Group Inc. addresses the **concerns of health plan sponsors**. Request item **3119**.

■ A booklet on how the Omnibus Budget Reconciliation Act of 1993 changed **Medicare secondary payer laws** is offered by Allsup Inc. Request item **3120**.

■ ADMAR Corp.'s **partnership between medical providers, patients and payers** is described in a fact sheet. Request item **3121**.

■ Several fliers supplied by Pharmaceutical Care Network explain **pharmacy benefit management**. Request item **3122**.

■ A glossary listing **medical cost containment and prevention services** for the non-clinical manager is available from Eckman/Freeman & Associates. Request item **3123**.

■ A Duncanson & Holt manual offers an **overview of the claims process** for individual long-term care insurance. Request item **3124**.

■ Associates for Health Care Inc. provides a newsletter on **utilization management trends and health care reform issues**. Request item **3125**.

■ How self-insuring can be a practical **solution to rising health care costs** is described by VISTA Admin-

See **Health** *on next page*

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ADVERTISER INDEX

Issue of July 3

Advertiser	Page #
Admiral Insurance	12
Aetna Life & Casualty/Bond	21
AIG American Home	13
Alexander & Alexander	32
Allendale Insurance	24-25
American Re-Insurance Co.	16-17
AON Re Worldwide	10-11
Business Insurance	23
Carvill America, Inc.	44
CEIS	44
Centre Cat	7
Claims Overload Systems	32
Continental Underwriters	45
Duncanson & Holt	52
ECS Underwriting Inc.	33
Employers Reinsurance Corp.	18-19
First State Management Group	4
GE Captial Assignment Corp.	6
Health Net	23
Jefferson Insurance Group	45
Met Disability	27
Metrahealth	38-39
PMA Reinsurance Corp.	22
Protection Mutual Ins. Co.	36-37
Prudential DMO Benefits Div.	28
Prudential Re/California	20A/B
Right Rx, The	40
Skandia America Group	20
Swett & Crawford Group	34
Thomas Howell/Gay & Taylor	26
USA Health Network	35
Wausau Insurance Company	5
Willis Faber N. America	31
ZRC	9
Zurich-American Corporate	14-15

Health

Continued from previous page

istrators Inc. Request item **3127**.

■ In Q&A format, Pharmacy Data Management explains the organization, system and structure of its **online prescription claim processor**. Request item **3128**.

■ The Pharmaceutical Care Network client newsletter reviews how recent health care trends affect **pharmacy benefit management companies**. Request item **3130**.

■ Duncanson & Holt Group offers an information manual on **individual and group long-term care insurance**. Request item **3131**.

■ A **COBRA Audit Checklist** from Applied Benefits Research Inc. is available for employers that are evaluating various COBRA compliance systems. Request item **3132**.

■ A quarterly newsletter from Medco Review Inc. presents issues regarding **health care claims** and includes conference schedules. Request item **3133**.

■ Buck Consultants Inc. offers a case study describing the design and implementation of a **direct contracted hospital network**. Request item **3134**.

■ **Drug therapy protocols** are recommended in a newsletter from Pharmaceutical Care Network. Request item **3135**.

■ A **Social Security and Medicare** fact sheet for employees is provided by BNA Books. Request item **3136**.

■ ADMAR Corp. examines the advantages of **sharing health care information system resources** for employers, payers and providers. Request item **3137**.

■ A newsletter from Buck Consultants Inc. looks at approaches to **reducing the cost of disability insurance programs** through disability management. Request item **3139**.

■ A. Foster Higgins & Co. provides a newsletter covering **health care and other benefits** issues. Request item **3140**.

■ A booklet provided by CIGNA Group Insurance outlines the **group life insurance products** in its benefit package. Request item **3141**.

■ Occupational Health Service supplies an article explaining a **quality improvement system** that integrates psychotherapy research into its EAP and managed behavioral health care program. Request item **3142**. BI

Business Insurance — Information Resource

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Issues

Continued from page 2

professional" in its business, he said.

"Everything we see on the ongoing Lloyd's looks good," Mr. Jobe said. "But Equitas is a big problem. I would worry if I was a creditor for '92 or prior."

"The names, of course, are concerned that even though they cut a check that indicates finality. . .what happens if Equitas runs out of money?" Mr. Jobe said. He said some members are "walling off their assets" to protect themselves if Equitas should prove unable to meet all outstanding claims.

Mr. Jobe believes there's no shortage of capital to be invested in the industry in general. "There's tons of capital just waiting to invest in a good opportunity," he said. 'Look how much capital came out of the woodwork in Bermuda."

"I had three or four calls from large companies who wanted to help us create a Bermuda company to underwrite property/casualty business," Mr. Jobe said. "There's a lot of buyers looking for sellers, a lot of sellers looking for buyers."

The key question for the CEO of the company making the investment is what would be the return on equity, he said.

Meanwhile, the weakness of the dollar might prompt more overseas investment in U.S. insurers, Mr. Jobe said. "Things that are cheap relative to the yen or relative to the mark are suddenly very attractive to Japanese and German buyers," he said. "Companies that are for sale may go to foreign buyers."

Another panelist, John W. Fisher, president of Auto-Owners Insurance Group, based in Lansing, Mich., believes the future will hold more consolidation in the insurance industry. He also doesn't see any change from the current competitive market and believes insurance companies must respond accordingly.

"I think we recognized several years ago that this is not a soft market—this is the real market," Mr. Fisher said. "I think what companies really need to do is decide where they want to play. You can't be all things to all people."

As an insurer, Mr. Fisher said he isn't concerned about the possibility of banks being allowed to sell insurance products, calling the subject "a non-issue."

"Yeah, it's additional competition. But the banks don't have any secret of success," he said. "If we would concentrate more on selling business and serving our customers rather than fighting the banks, we'd all be better off."

Offering an agent's view, panelist Roger W. Joyce of Dill, Joyce & Thresher in Avon, Conn., and president of the CPCU Society, said he also doesn't find the possibility of banks selling insurance a frightening prospect.

"People want to have their hands held. People want service," Mr. Joyce said. "They don't want to go to a bank teller to purchase their insurance."

Mr. Fisher agreed there will continue to be a role for agents in the future. "People are going to buy insurance from computers," he said. "But I think the agent still has a viable role in the marketplace."

Mr. Joyce suggested there are two keys to agents' survival: customers and stable insurers. And allowing banks to sell insurance actually would give insurance companies "a tremendous opportunity," he said. "Because the banks are probably going to act as distributors, they're not going to act as a manufacturer."

In terms of the cost and capacity of catastrophe reinsurance, Mr. Jobe said he believes the system is changing.

"I think the old way of buying it is going to diminish over time," he said. The existing method has been a "winner take all" system, Mr. Jobe said. But he cited the recent arrangement between Nationwide Insurance Group and Morgan Guaranty Trust Co. as an approach that makes sense for the future.

Under that arrangement, Nationwide supplemented its existing reinsurance by entering into an agreement to sell Morgan $400 million in surplus notes over the next 10 years if the money is needed to fund catastrophe losses or cover business expansion.

"There's a lot of financially driven products that, to me, if you have a trading partner relationship, if you can stabilize your expenses over a period of time, that's a better answer," he said. He also noted the Chicago Board of Trade's catastrophe insurance contracts and various stop-loss products entering the market as other examples of future reinsurance approaches.

On the subject of reinsurers' reserves, Mr. Jobe said that while some companies are strongly reserved, "the biggest problem is reinsurers who have little bitty pieces of thousands and thousands of treaties who post their reserves on the basis of what they are told, not on the basis of what they have discovered."

Environmental liabilities are the real problem for those reinsurers, Mr. Jobe said, adding that he believes that's why many reinsurers have gotten out of the business in recent years—they've discovered what their exposure really is.

Pamela J. Allen, vp of federal affairs for the Washington-based National Assn. of Mutual Insurance Cos., offered a perspective on legislative activities.

Ms. Allen said there is talk that a measure creating a national catastrophe reinsurance fund will be linked to the budget reconciliation bill later this year.

She also commented on reforms being implemented by the National Assn. of Insurance Commissioners."We see it as an encouraging sign. We see it as an even more encouraging sign that many states have introduced legislation requiring that any future NAIC administrative changes get close scrutiny before they are imposed," Ms. Allen said.

The NAMIC official also suggested that there will be no legislation to modify the McCarran-Ferguson Act in this Congress. BI

Focus on prowess, not pricing: CEOs

By RODD ZOLKOS

TRAVERSE CITY, Mich.—Insurance companies will have to get better at their core business if they're to survive in the future, according to the two keynote speakers at the Conference of Casualty Insurance Cos.' 1995 management conference.

"You can't always rely on price increases to solve problems," said Maurice R. Greenberg, chairman and chief executive officer of New York-based American International Group Inc. "I think the industry has to do more on its own to improve experience rather than just raising prices."

"Technology and expense ratios are going to be the driving forces of the future," Mr. Greenberg said. But sound underwriting also will be a critical, he said.

"You have to be good at underwriting, you have to be good at claims handling," said Kaj Ahlmann, chairman, president and CEO of Employers Reinsurance Corp. in Overland Park, Kan., in his remarks as co-keynote speaker at the conference, held June 18-21 in Traverse City, Mich.

Other factors Mr. Ahlmann included in his "formula for success" for insurers in the years ahead were focus, "ruthless realism about one's real financial strength," a "wholehearted commitment to professionalism," tight financial discipline and genuine product innovation.

And for reinsurers, success will require size and financial strength. "A small reinsurer is no longer a viable thing," Mr. Ahlmann said.

A reinsurer also must be customer-focused and its management must "not be afraid of leading."

The two executives made their comments in the course of remarks examining a broad range of issues affecting the future of the insurance industry.

Mr. Greenberg expressed concern over the precedent established by the Home Holdings Inc./Zurich Insurance Group deal. It's the first time the insurance industry has allowed a company to be split into good and bad, with the bad portion receiving assets hoped to be sufficient to run off its liabilities, he said.

If not, the other companies will have to pay for it through guaranty funds, and "that's bad," Mr. Greenberg said.

Other insurance companies already are looking at the possibility of taking similar steps, Mr. Greenberg suggested.

"I think it's wrong when a company has a parent that's solvent but looks for a way to get out of the mismanagement of 20 or 30 years that caused it," Mr. Greenberg said, adding, "Lloyd's is no different."

But Mr. Ahlmann took a different view of Lloyd's of London's restructuring plan, which would segregate hundreds of open accounts into reinsurer Equitas Ltd. "I'm not sure I think that's a bad solution, basically because I don't see an alternative," he said.

"If it doesn't happen that way, I think we will see a tremendous scandal in London," which would be bad for the insurance industry, Mr. Ahlmann said.

Both suggested that the continued consolidation of insurance and reinsurance companies is inevitable in the future. In 1986, the 10 largest global reinsurers wrote 25% of the world's reinsurance business, while in 1993 they wrote 43%, Mr. Ahlmann noted.

AIG will welcome the good business that had been placed at failing companies, Mr. Greenberg said. "We will continue to be a Pied Piper for those agents who want to bring that business and broker it with us."

In terms of the impact of future catastrophes, Mr. Greenberg noted, "Clearly you have to argue that finite capital, which our industry has, cannot cover infinite risk." The industry needs a reinsurer of last resort, he said, such as the catastrophe reinsurance fund being discussed in Congress (*BI*, June 19).

If supply and demand were left to work in the industry, catastrophe rates would be much higher, those who could afford coverage would buy it and those who couldn't simply wouldn't, Mr. Greenberg said.

He also noted that half the insured losses from the Northridge quake were from contents and extra expenses, and said the industry should develop coverages that just cover "four walls and a roof." The surplus lines market then could offer some sort of wrap-around coverage to insure contents and extra expenses.

Mr. Ahlmann expressed concern that the industry doesn't recognize how great its catastrophe exposure is.

"We still don't understand what our exposures are. We need to understand that a lot better," he said.

He cited statistics that show the rapid growth of insured property in storm-prone areas. He pointed out that 80% of all building permits in the United States from 1970 to 1989 were issued in coastal areas and that the value of insured coastal property is growing enormously.

Mr. Greenberg also noted the growing use of financial instruments such as derivatives or relationships with investment banks by more sophisticated companies to manage a broad spectrum of risks those companies might face, including interest rate, currency and political risks.

"That's the area that we're moving into," Mr. Greenberg said, citing the efforts of AIG's financial services division. BI

EBIS

Continued from page 3

ducing costs while increasing employee satisfaction.

While benefits programs differ from company to company, many are using similar technologies to eliminate duplicate work and reduce errors. Some have used software to link their payroll and benefits plans together into one system, so updates and changes to both can be made with a few simple key strokes.

Often, employees enroll over the phone, eliminating the need to fill out unwieldy, multipart enrollment forms.

"We have rooms full of paper from enrollment forms," said Karen King, director of benefit operations of Washington-based Marriott International Inc. "With phone enrollment, there will be no need for that.'

Marriott currently is in the development phase of a project to centralize benefit plan enrollment for all employees through one telephone service center before the end of the year.

Employees at East Hanover, N.J.-based Nabisco call an 800-number to enroll in benefit programs, make changes or get their account status.

Other popular services include voice-response systems that employees can call to get automated information or to speak with a customer-service representative. Many of these systems operate 24 hours a day, seven days a week, which accommodates employees who work long or odd hours.

Nabisco has implemented the "Plan Expert" from Information Learning Systems, which provides detailed information to help benefits administrators and field human resource representatives answer employees' questions about the company's benefits. This tool minimizes training time and allows specialists to become generalists, said Ms. Manning, who, along with Ms. King, spoke about emerging technologies at The Annual Benefits Symposium presented by the International Business Forum in New York last week.

New technologies have eliminated most paper and created a more efficient, cost-effective system. Duplication of work is avoided, which means fewer staff members and less time spent on enrollment. With centralized systems, benefits administrators at different company locations are not always needed.

With the re-engineering of its program, Marriott hopes to save staff costs and improve efficiency and speed, said Ms. King.

Companies are given more control over accuracy because the chances of making mistakes are greatly reduced.

"We have eliminated most errors and all inconsistencies," said Helen C. Chappelear, benefits manager of Brooks Beverage Management in Columbus, Ohio, who spoke at the conference about her company's automated enrollment and linked payroll and benefit systems. "If any information is incorrect, at least everyone has the same information," said Ms. Chappelear, who has one full-time assistant to help her manage benefits for 2,000 people.

The implementation of new technologies forces employees to assume more responsibility for their benefits. Marriott considers employee empowerment to be a core principle of their benefits re-engineering.

Its new program, the Marriott Telephone Information & Enrollments, or MARTIE, will make employees responsible for enrolling in the benefits plan and learning about their benefits, said Ms. King.

Communication materials about the benefits program will be mailed to employees' homes automatically as soon as they are put on payroll, which will relieve managers and supervisors of the responsibility of educating employees about their benefits.

"This frees up managers and lets them concentrate on other responsibilities," said Ms. King. It also guarantees that employees receive the information because it goes directly to them, rather than through a manager.

Employees gain from the new technologies as well. They learn more about their benefits and have information at their fingertips.

And because systems are universal throughout companies, employees don't have to worry about receiving inaccurate responses.

This was a problem at Marriott, where employees did a lot of "answer shopping" prior to the re-engineering of the program, said Ms. King.

"There was a fair amount of inconsistency," she said. "Employees would keep asking questions until they got the answers they were looking for."

For some companies, cost savings is an added benefit, but not the ultimate goal of implementing the new technologies.

Both Ms. Manning and Ms. King said that they want to improve the reputation of the benefits department and be more customer service-driven.

"We're really looking for improved service more than savings," according to Ms. King. The benefits far outweigh the problems that come with the implementation of new programs and education of employees about new procedures.

"We know there will be problems, but we're hoping that we have enough commitment in the company to make it work," said Ms. King. BI

Forum focuses on benefit issues

NEW YORK—More than a dozen employee benefit issues, including how employers are using advanced technology to improve administration of their benefit plans and the pros and cons of cash balance pension plans, were discussed at the First Annual Benefits Symposium in New York last week, which was presented by New York-based IBF/International Business Forum.

The conference was co-sponsored by American Express Financial Advisors Inc.; Bankers Trust Co., *Business Insurance*, Diversified Investment Advisors and Merrill Lynch & Co. Inc.

For more information about future IBF conferences, contact: IBF/International Business Forum, 7 Pennsylvania Plaza, Suite 901, New York, N.Y. 10001; 212-279-2525.

Cash balance plan can pay off

NEW YORK—For BellSouth Corp., its 2-year-old cash balance pension plan has combined the best features of defined benefit and defined contribution plans.

"The plan is the best of both worlds," says R. Thomas Hepburn, BellSouth's benefit planning manager in Atlanta.

Speaking last week in New York at the First Annual Benefits Symposium sponsored by the IBF/International Business Forum, Mr. Hepburn expressed the same frustration—high expense and low employee appreciation—that many employers have had with their traditional defined benefit plans. "We were paying a significant amount of money for a benefit that no one appreciated or understood."

That lack of appreciation was the result of a complex formula used to calculate benefits. In addition, similar to most traditional defined benefit plans, BellSouth's defined benefit plan structure was skewed heavily in favor of longer-service employees.

But BellSouth's cash balance plan, designed by benefit consultant Kwasha Lipton of Fort Lee, N.J., offers a relatively easy-to-understand benefit design.

Under the plan, "contributions," or credits to individual employee account balances, are based on years of service. This account is expressed as a monthly benefit. All participants receive benefit credits equal to at least 3% of annual pay. Those credits gradually rise in tandem with employees' length of service until they reach a maximum of 8% of compensation. Individual companies that are part of BellSouth—depending on their financial health—also can provide supplemental benefit credits.

In addition, employees who make more than the Social Security wage base receive credits equal to 3% of their compensation above that wage base.

BellSouth guarantees an annual return on account balances of at least 4%, though it actually has paid slightly higher amounts in 1994 and this year.

This relatively easy to understand benefit plan design also could have been achieved with a defined contribution plan.

But switching over to a defined contribution plan had significant negatives and never was considered seriously by BellSouth, Mr. Hepburn said.

Defined contribution plans, unlike defined benefit plans, place the investment risk on participants. Employees' defined contribution plan account balances can fall if they choose investment vehicles that perform poorly.

"We were not ready to go that route," Mr. Hepburn said.

By contrast, in a defined benefit plan, like a cash balance plan, employees' vested benefits are guaranteed by the company. And if a company fails, the promised benefits are insured by the federal Pension Benefit Guaranty Corp.

Shorter-service employees typically also earn benefits faster in a cash balance plan than in a traditional plan, where benefits are skewed in favor of long-service employees.

With many employees no longer considering a lifetime career with one company, a benefit plan that pays somewhat richer benefits—compared to a traditional defined benefit plan—may have greater appeal to more employees.

There is, though, one downside to a cash balance plan: increased record keeping.

"Don't let anyone fool you, there is more record keeping," Mr. Hepburn said.

—By Jerry Geisel

Employers help focus pension reform

By JERRY GEISEL

NEW YORK—Employers may not exactly like all the provisions in the legislation passed by Congress last year to improve pension plan funding and shore up the Pension Benefit Guaranty Corp., but without business intervention the measure would have caused a lot more problems, a lobbyist says.

Pension plan interest rate and mortality assumptions that could have walloped even employers with relatively well-funded plans were softened because of business lobbying.

Without those lobbying efforts, the pension legislation "could have been a lot worse," said Lynn Dudley, director of retirement policy at the Assn. of Private Pension & Welfare Plans in Washington.

Speaking last week in New York at the First Annual Benefits Symposium sponsored by IBF/International Business Forum, Ms. Dudley described the numerous challenges that lobbying groups faced as the pension funding legislation made its way through Congress.

Those challenges included the following:

- The pension provisions were attached to a broader trade bill—known as the General Agreement on Tariffs and Trade. The GATT treaty, which will reduce tariffs significantly over the next 10 years, had gained widespread support in the business community.

That support for the broader GATT treaty made it difficult for employee benefit lobbying groups to garner support from individual companies in lobbying Congress for changes in the pension provisions.

- The pension provisions were broadly embraced by both the Clinton administration and key congressional leaders.

Support for those provisions was due in part to widespread recognition that legislative changes were necessary to curb loopholes that made it relatively easy for some companies to underfund their pension plans.

But there also was a fiscal twist to congressional and legislative support.

The pension portion of the GATT treaty will raise more than $1 billion in new federal revenues over a five-year period.

For example, one provision increases premiums employers with underfunded pension plans pay the PBGC, while another provision will, among other things, slow future increases in the maximum salary deferrals employees can make to their 401(k) plans.

Because the pension portion of GATT raised revenues, any move to strip that portion from the GATT bill would have been doomed to failure.

"This bill was a wedding between the PBGC and GATT," Ms. Dudley said. "We were faced with a bill that was like a train moving fast out of the station," she added.

Given that the GATT bill was certain to pass, the strategy of business groups was to try to refine the pension provisions rather than a futile effort to try to block the measure.

Business groups concentrated their lobbying efforts on what Ms. Dudley described as "bottom line" provisions, those involving interest rate and mortality assumptions. These assumptions are used to calculate liabilities and how much companies must contribute to their pension plans.

Business groups had complained that the mortality assumptions were too conservative and would have forced employers to funnel millions of dollars in unnecessary contributions to their plans.

Assumptions affect the corporate "bottom line in a big way," Ms. Dudley said.

In response to business pressure, congressional conferees made several changes to interest rate assumptions.

Under the legislation that was enacted, employers must use an interest rate assumption starting this year that is in the range of 90% to 109% of the four-year weighted average of the rate for 30-year Treasury bonds.

That 109% ceiling will decline by one percentage point each year until it reaches 105% in 1999; an earlier version of the bill would have required an interest rate assumption of 90% to 100%.

In addition, a special rule—which employers successfully pressed for—decreases the chances that employers with relatively well-funded plans will have to make extra contributions—known as the deficit reduction contributions—to their pension plans.

Generally, these special contributions are required if an employer's pension plan is less than 90% funded. But, under the special rule that was adopted, extra contributions will not be required if a plan is 90% funded for two consecutive years and the plan is at least 80% funded in the following two years.

Other changes that business groups secured will allow employers to use special tables to calculate the life expectancies of employees who retire on disability pensions as well as getting legislators to drop a provision that would have forced employers—mainly smaller firms—to terminate a type of pension plan known as age-weighted profit-sharing plans.

The ban on age-weighted plans "had no business" in a PBGC funding bill, business groups told legislators, the APPWP's Ms. Dudley said. In all, the PBGC bill "was the best we could get," she said. BI

French insurers struggle to meet E.U. competition

Ongoing losses lead to speculation on a government bailout of GAN

By MARIA KIELMAS

French insurance companies are facing uncertain times as a fragile recovery in the non-life market coincides with both increasing competition and stagnant consumer purchasing power.

One French company whose future direction is being questioned is Groupe des Assurances Nationales. Paris-based GAN has suffered several years of underwriting losses and sharply lower profits.

Industry analysts expect the government, which owns 80% of the insurer, may devise a taxpayer-financed bailout for GAN that would be similar to, albeit smaller than, its controversial bailout of the country's largest bank, Credit Lyonnais.

Such bailouts have been criticized, though, by companies in other European Union countries as unfair competition.

Mutual insurers also are contributing to the atmosphere of increased competition in France.

"Mutual companies set their underwriting targets not on a return on equity but on whatever underwriting target they feel they need to gain market share without slipping into a loss," said Mike Wheelhouse, insurance analyst at London-based stockbroker Nomura International. "They have no profit motive, so this makes them lethal competitors."

The threat of increased competition is prompting French insurance companies and banks currently struggling to strengthen their positions to form alliances with domestic and foreign insurers and financial institutions. The "bancassurance" trend means banks are making ever greater inroads into the insurance sector in France.

For example, Credit Lyonnais and Germany's Allianz Versicherung A.G. have reached an accord for the distribution of Allianz' non-life products in France through Credit Lyonnais' network of banks.

A more ambitious proposal has been floated that would create an insurance-banking-investment conglomerate between the country's largest insurer, Union des Assurances de Paris, Banque Nationale de Paris and financial/industrial holding company Compagnie de Suez. The move has been criticized by French executives and some analysts.

"The UAP-BNP-Suez argument is beyond the comprehension of the Anglo-Saxon market," said one insurance analyst in London who asked not to be identified.

The problems facing French insurers and the proposed solutions stem largely from a unique situation in France, where the state is a leading stockholder in the top financial and industrial companies and takes an active part in deciding their business strategies.

GAN's immediate problems, though, are due primarily to heavy rate cutting in 1993 in an effort to boost market share. Resulting underwriting losses for the company were compounded by losses from its subsidiary, Union Industriale de Credit, a real estate lending company that was hit badly by the recent slump in the French real estate market.

GAN posted a consolidated net loss of 5.3 billion francs ($992.7 million) in 1994, of which 58%, or 3.1 billion francs ($580.6 million), was from UIC losses alone.

GAN wrote 14 billion francs ($2.62 billion) in gross non-life premiums in 1994, up 1.1% from its 1993 volume. The French non-life market overall, though, has been growing at an average of 5% annually, according to analysts. Life insurance premiums grew 3.1% to 21.5 billion francs ($4.02 billion).

GAN reported underwriting losses on non-life business of 1.27 billion francs ($237.9 million), which included additions to loss reserves of about 800 million francs ($149.8 million), bringing reserves to 1.58 billion francs ($295.9 million). It posted an 827 million franc ($154.9 million) underwriting profit on life insurance results.

However, GAN's non-life losses may be much greater, according to reports of potential reserve inadequacy.

Recent French press reports, which a GAN spokeswoman in Paris acknowledged were from the company, indicated that a recent reserve audit estimated GAN's non-life reserves are short by 5 billion francs ($936.5 million) and that the group's total paid and incurred-but-not-reported losses for 1994 could be as high as 10 billion francs ($1.87 billion).

GAN is seeking the government's help with its reserve levels, but the insurer did not reveal exactly what steps it plans to take.

"I don't think that anyone knows whether GAN is adequately reserved or not and I don't think it is possible to know," says Tim Dawson, insurance analyst at London stockbroker ABN AMRO Hoare Govett.

It remains unclear why GAN lacks an accurate picture of its reserves, though some other European insurers have experienced the same problem.

GAN's non-life business has been in the red since 1992, but President Jean Jacques Bonnaud contends the insurer is on the road to recovery.

But stock market analysts differ.

"I don't see the non-life business ever returning to profit," says Hoare Govett's Mr. Dawson. "The non-life cycle's been and gone and GAN still has a long way to go."

See **GAN** *on next page*

P&I clubs move to reduce liability

But London Club says proposed limit is still too high

By EDWIN UNSWORTH

LONDON—Protection & indemnity clubs, the mutual insurers for shipowners, are expected to continue discussions this week on proposals to limit their members' financial liability to catastrophes.

The International Group of P&I Clubs, an association whose members pool their risks above the limits of their reinsurance coverage, will meet tomorrow to hear the proposals. The meeting is in response to shipowners' concerns—in the face of mounting catastrophe risks like oil spills or port explosions—that they have no limit on their liability per incident, thus increasing the potential exposure shared by all of a P&I Club's members.

John Riley, chairman of the International Group, said he does not expect a final decision on the liability issue to emerge from the meeting. Instead, the group will be reviewing the decisions reached by each club on the proposal.

So far, all but one of the International Group's 14 members support a compromise proposal that would limit group members' aggregate exposure to any one catastrophe to about $20 billion. They would like this rule change in place in time for P&I Clubs' Feb. 20, 1996 renewals.

The one member of the International Group not backing the proposal is the London Club, which fears the $20 billion limit still is too high. It favors instead introducing an overall limit in the range of $2 billion to $3 billion per incident.

In defense of its proposal, the International Group said: "The cover provided by a club to its members has always in practice been limited to the amount that the club is able to collect from members, and the pool and the proposals also formally recognize this position."

Currently, in the case of a maritime catastrophe involving a P&I club member, the club would first draw on its reserves, and then, if necessary, make a cash call on members to help meet the cost of the claim not met by reinsurance.

The proportion required of each shipowner is related to the total tonnage insured with the club.

Under the International Group's compromise proposal to limit liability, a shipowner's maximum loss contribution would be fixed at 20% of the liability of his fleet for property damage under the 1976 Convention on Limitation of Liability for Marine Claims. This is the formula that produces the limit of about $20 billion per catastrophe.

See **P&I clubs** *on page 45*

World regulators agree to share information

ST. LOUIS—A new international information-sharing agreement should make it easier for insurance regulators around the world to get information about companies based in foreign countries.

Fifty-one members of the International Assn. of Insurance Supervisors signed a formal pledge last month to share information about insurance-related operations, at least to the extent permitted by their laws.

Specifically, the agreement states that signing members will provide "assistance on a reciprocal basis for obtaining information and documents related to market oversight or protection of each other's markets against fraudulent insurance transactions." In addition, they will also consider recommending legislation to implement the sharing of information, as needed.

Each IAIS member is expected to designate a contact person responsible for prompt handling of all requests. In addition, an IAIS committee is expected to draft a standard inquiry form, which should facilitate requests.

"It has always been the IAIS' mission to develop new mechanisms for mutual cooperation and assistance among international insurance regulators," said IAIS Chair Piet J. Badenhorst, executive officer of South Africa's Financial Services Board. "The signing of this mutual assistance agreement furthers that goal and paves the way toward future efforts."

Some members of the IAIS, which now has about 100 members, did not sign the agreement at this meeting, but expect to do so in the future, Mr. Badenhorst added.

The IAIS grew out of separate meetings of international regulators, which the U.S.-based National Assn. of Insurance Commissioners hosted over the past several years (*BI*, June 27, 1994).

The Kansas City, Mo.-based NAIC now serves as its secretariat.

During the past year, the IAIS became incorporated in the United States as a non-profit association and established a newsletter.

This year's meeting was its second as an independent organization, though it was held in conjunction with the NAIC's summer meeting for the second year in a row.

The IAIS plans to hold its next annual meeting in the fall of 1996 in Paris.

—By Meg Fletcher

Europeans turn to alternatives

By DON LEWIS KIRK

COLOGNE, Germany—The future of risk management and risk financing in Europe will be very different than its past, according to international experts.

"Economic, social and political evolution has induced a fundamental shift in industry," said Roland Seul, chairman, chief executive officer and managing general partner of broker Gradmann & Holler/Marsh & McLennan in Munich, Germany.

At a conference last month on risk management and risk financing, co-sponsored by Risk & Insurance Research Group Ltd. and Gerling Konzern A.G. held in Cologne, Germany, Mr. Seul told delegates that burgeoning insurance costs already have forced many European companies to choose alternative risk financing arrangements.

"New attitudes about risk retention, risk transfer and risk financing have emerged out of rationalization and cost-cutting efforts in a more competitive world," he said.

Dietmar Nowak, executive director of property insurance for Cologne-based Gerling, said risk financing choices often depend on the effectiveness of risk management. "Those companies that create a captive must understand their own risk and have trust in their own safety management."

Confidence in the adequacy of risk management already has led several major corporations—such as Germany's largest chemical and pharmaceutical company, Hoechst A.G.—to form captive insurance companies and seek partial autonomy from traditional insurance markets (*BI*, April 18, 1994).

"A self-managed (captive insurer) can give a new quality to the risk management process. When insurance techniques are linked to risk analysis and evaluation, it improves the quality of safety," said Peter Ramb, director of insurers at Frankfurt, Germany-based Hoechst.

"The exposure of a corporation is more than the addition of its units," he said.

Hoechst's in-house "central services insurances" department defines and develops property/casualty insurance programs based largely on its own risk analysis and evaluation of the company's claims.

"Risk management is a process, which links risk financing elements like deductibles and risk transfer with safety measures," says Mr. Ramb. "It is a task for all of corporate management, a task that requires that risk be made visible."

However, several factors can hinder companies from embracing alternative risk financing instruments, said Paul Bawcutt, managing director of London-based international consulting firm Risk & Insurance Research Group Ltd. Such factors include government regulation and controls, relatively insignificant insurance expenses and the dominance of domestic insurers.

"The ratio of captives to major corporations in continental Europe is pitiful," said Mr.

See **Risks** *on page 45*

INTERNATIONAL

British insurer group sets agenda

By EDWIN UNSWORTH

LONDON—Members of the Assn. of British Insurers posted improved earnings in 1994, but the ABI says it sees three key concerns for insurers in the future.

On the property/casualty side, there are serious worries about increasing the tax burden on insurers, ABI Chairman Allan Bridgewater said late last month.

While the ABI welcomes tax changes expected to be in place by year end that will allow U.K. insurers to bring their equalization reserves in line with their European competitors, Mr. Bridgewater said insurers "hope this situation will not be compromised by a government desire to increase yield from insurance premium tax by extending the scope or raise the rates."

The premium tax, introduced last November, is set at 2.5% of insurance premiums, equivalent to about £800 million ($1.26 billion) a year.

Mr. Bridgewater said this increases an already onerous tax burden, which includes: insurers' contributions to the Policyholders Protection Board, which pays policyholders when an insurer fails; irrecoverable value-added tax contributions of about £2 billion ($3.15 billion) a year; and about £80 million ($126.1 million) a year paid to the Motor Insurers' Bureau to cover claims of the victims of uninsured motorists.

On the life side, the ABI said this year its members should monitor two areas: the regulatory environment and the tax disadvantages of life insurance products against other forms of investment. The issues are important, Mr. Bridgewater believes, because while premiums generated by property/casualty lines insurance have risen steadily for a number of years, those from pension and life business fell in 1994.

On the regulatory issue, the government needs to more evenly apply regulations on life insurers compared with those for competing savings products, particularly with regard to disclosure of information, he said. This month, the ABI will present proposals to the Treasury for tax concessions.

The association is encouraged by the Securities and Investments Board's recent announcement of the possible relaxation of some regulations. Mr. Bridgewater said the ABI hopes these "can be built on, in association with initiatives by the industry, to reduce those burdens and costs which are difficult in terms of effective investor protection."

The second concern is over the tax advantages given to certain U.K. equity-based investment products, in particular Personal Equity Plans, or PEPs, and Tax Exempt Special Savings Arrangements, or TESSAs, whereas premiums paid on life and endowment policies no longer enjoy tax benefits.

"We have started a process of constructive representations to government with a view to restoring equality of treatment," Mr. Bridgewater said.

One reason the equal treatment is needed is that "public confidence in life insurance and in long-term saving has taken a knock," he said, referring to revelations in recent years that thousands of individuals have been badly advised to leave their company pension plans in favor of starting less profitable personal pensions.

Last year, the U.K. government ordered insurers to compensate these people for their losses, which still are being quantified, is costing insurers millions of pounds.

The ABI also unveiled an initiative to combat fraud in both life and non-life insurance, which costs U.K. insurers an estimated £600 million ($961.2 million) a year and increases premiums by almost 4%.

Tony Baker, the ABI's deputy director general, announced the launch of The Crime and Fraud Prevention Bureau, which will coordinate the life and non-life sectors' anti-fraud activities. These efforts include the computer loss registers coordinated by the ABI, such as the Claims and Underwriting Exchange and the Motor Insurance Anti-Fraud and Theft Register.

The new bureau also will provide data to help insurers to tackle fraudulent claims more effectively and will consider ways in which liaisons with police and other organizations can be improved.

The ABI also released 1994 results for its 438 property/casualty insurer members. They achieved an overall trading profit last year of £3.95 billion ($6.18 billion), more than double 1993's profit of £1.85 billion ($2.74 billion).

Underwriting losses fell sharply for the fourth year in a row to £164 million from £2.21 billion previously (to $256.7 million from $3.27 billion), mainly due to reduced claims and the absence of significant catastrophe losses. Net written premiums for property/casualty insurance improved to £34.49 billion from £33.63 billion (to $53.98 billion from $49.76 billion), while net investment income rose slightly to £4.12 billion from £4.05 billion (to $6.45 billion from $5.99 billion).

In the life sector, total premiums dipped to £53.9 billion from a record £55.6 billion in 1993, owing mainly to a drop in public confidence in life and pension products after a number of companies were found guilty of improper sales practices. BI

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GAN

Continued from page 43

"GAN is in a very bad shape and will continue to lose money in 1995," said Claire Barbaret, insurance analyst at London stockbroker Smith New Court.

One drain on earnings is the expense of maintaining its own sales force.

Some 45% of GAN's gross written premiums are generated through its 1,400-strong network of agents throughout France.

As direct sales of insurance increase in the French market—just as they have in other countries, especially the United Kingdom—GAN's agency network and the cost of commissions is expected to become an increasing burden on the company's accounts.

GAN has said that its strategy for improving profitability includes cuts in management costs. But it is unlikely that the agent network will be severed, said Ms. Barbaret.

"It is not possible to reduce the agents because GAN depends on them for so much of its distribution."

GAN also is able to distribute its products through banking subsidiary Credit Industrial et Commercial, which is its only link with banking.

GAN acquired CIC in the 1980s after being obliged to do so by the then-government, because CIC was facing losses in both bank lending and sovereign debt. CIC is now profitable, with earnings of 534 million francs ($100 million) in 1994. GAN currently owns 85% of CIC, while CIC owns 50% of GAN's life subsidiary, Socapi.

GAN President Mr. Bonnaud has said that the company would be prepared to sell some of its shares in CIC to meet the insurance group's losses, but such a move has been opposed by the individual regional banks that make up CIC.

Analysts say a better solution might be for the government to sell off GAN, with Assurances Generales de France the most widely suggested potential acquirer.

"If GAN were a U.S. or a U.K. group, then once its real estate losses were sorted out it would get taken over," said Hoare Govett's Mr. Dawson.

"Why not sell it to another insurer or maybe split it up?" questioned Smith New Court's Ms. Barbaret.

A spokeswoman for AGF in Paris said that there was "absolutely no discussion" with GAN about a possible merger.

"There will be no merger with any insurer," said a GAN spokeswoman in Paris. "The company's objectives are to be profitable and to stay independent."

As GAN ponders whether to solve its problems by selling its bank holdings, other insurers hope to forge even greater links with banks.

UAP and Banque Nationale de Paris have proposed creating a large financial conglomerate through a merger between them and Compagnie de Suez. Suez, a financial/industrial holding company, already holds shares in reinsurer Abeille Reassurances and broker CECAR. Suez sold insurer Groupe Victoire last year to Commercial Union P.L.C. (*BI*, Aug. 22, 1994).

The UAP/BNP proposal coincided with a Suez plan to merge with French retailer Pinault Printemps Redouts, which fell through and has been followed by a proposal to merge with water utility Lyonnaise des Eaux.

Hoare Govett's Mr. Dawson compares a potential UAP-BNP-Suez merger with the creation of the Dutch banking and insurance group, Internationale Nederlanden Groep N.V., formed in 1991 through the combination of insurer Nationale Nederlanden N.V. and commercial bank NMB Postbank Group.

A UAP spokesman said that a French-style ING was indeed the strategy UAP had in mind but added that details of the plan had not been worked out fully yet.

Mr. Dawson argued that the group's large size would not necessarily make it profitable.

It may give BNP an entry into investment banking through Suez subsidiary, Banque Indosuez, but otherwise the synergies—especially for insurance—are limited, he contends. BI

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Risks

Continued from page 43

Bawcutt, who noted that only 5% of the top 200 companies in Germany and 10% of that group in France have captive insurers, compared with 90% of the top 200 companies in the United States or England. But he sees change coming in Europe.

"Premiums are escalating, cover is reducing," said Mr. Bawcutt. "Knowledge is improving and the E.U. is having an effect on the freedom of services."

"The role of insurers is being challenged," he said. "Companies are questioning their longevity, security and quality of service, and cost-effectiveness."

The role of insurers in Europe is being challenged. Companies are questioning insurers' longevity, security, quality of service and cost-effectiveness, says Paul Bawcutt.

"Much of what has happened in the '90s—particularly in Germany—is a result of the difficulties companies had in placing highly exposed risks," said Gerling's Mr. Nowak. "Many companies questioned whether insurers were equitably assessing their risk."

Evaluation of corporate risks in Germany, which was based on a general tariff system, has been "too general," Mr. Nowak admitted. This has opened the door for companies to seek other solutions and indirectly pushed them into the arms of international competitors.

That factor has led Gerling and other major German insurers to free themselves of the tariff system and focus on more "individual assessment" of their policyholders' risks (*BI*, June 5; Feb. 27).

"In many cases, self-insurance, risk retention, captives, financial and finite risk reinsurance have become more attractive in an environment in which non-insurable risks or gaps in coverage occur," said Rolf van Dawen, head of the alternative risk department of Aachener Rueckversicherungs-Gesellschaft A.G.

At a time of deep recessions throughout Europe, many businesses are grappling with coverage gaps for fire, business interruption, product liability and recall, environmental liability, even earthquake or flood, he said. Such gaps have focused attention not only on the need for alternative risk financing schemes, but also on the need for effective risk management and loss control.

"Risk assessment requires efficient safety systems, a centralized task of risk management," said Kjell Hilding, risk management adviser of ABB Asea Brown Boveri Ltd. in Zurich, Switzerland.

"In ABB companies, 'zero-loss' and accident prevention are a corporate management objective," he explained. ABB provides intensive employee safety training based on the concept of individual responsibility.

"It is essential that the executive is involved in risk management. Only then can it work," he said.

"The amount of risk retention a company can support depends on an evaluation of safety standards," said Mr. Nowak. "But it also depends on a willingness to invest in safety and the available resources and liquidity of a company in case of a claim."

Ralf Oelssner, managing director of Frankfurt-based Albatros Insurance Broker & Agents, the insurance brokerage subsidiary of Cologne-based Lufthansa, Germany's leading airline, agrees.

"Providing the company with insurance protection at optimal costs is a primary target of a captive. But it also provides market knowledge with market participation. It provides risk management with advice and definition of need," he said.

There are several possibilities for risk financing administration, including corporate risk management departments, captive brokers, a captive insurer with reinsurers or captive reinsurers alone—which is the arrangement Mr. Oelssner said he prefers.

Reinsurance captives are exempt from insurance supervisory authority, have relative freedom in allocation of reserves and have reduced solvency and asset requirements, access to international reinsurance and insurance markets and can service a captive insurer, if one exists, he explained.

Lufthansa calls its risk financing solution the "holy trinity":

- A captive broker, Albatros Versicherungsdienste GmbH.
- A captive insurer, Delvag Luftfahrtversicherungs A.G.
- A captive reinsurer, Delvag Rueckversicherungs A.G.

All three of Lufthansa's captive entities are based in Cologne.

With about 260 million DM ($186.2 million) in gross premium, the captive broker places property/casualty coverage for the airline and personal lines business for the airline's staff. It also brokers commercial and personal lines insurance for third-party clients.

The captive insurer mainly acts as a composite insurer for aviation and marine coverage, with 80.2 million DM ($51.7 million) in 1994 gross premium.

Delvag Re had 1994 gross premiums of 71.6 million DM ($46.2 million), writing reinsurance for Lufthansa and other clients for all classes, especially aviation.

None of the three is a "pure" captive, Mr. Oelssner said. About 50% of each captive's business comes from clients other than Lufthansa.

Lufthansa's risk management tasks are divided between risk engineering and risk financing departments, which either identify and eliminate risk, or insure it though captive management, internal/external insurance or risk retention, he said. BI

P&I clubs

Continued from page 43

However, the London Club has said the International Group's proposed limit is "totally unrealistic" and "a recipe for chaos and confusion." It maintains that the vast majority of shipowners would be unable or unwilling to contribute up to these limits.

The London Club has claimed that even a catastrophe producing claims totaling $10 billion—half the International Group's proposed limit—could easily result in "wholesale failure or refusal by shipowners to pay all or part of the catastrophe calls levied on them and clubs having to take wholesale legal and arrest action against their entered ships."

While the London Club stands alone within the International Group, it has won the support of Greek shipowners.

The Greek Shipping Co-operation Committee, which represents 150 Greek shipping offices in London, sent a letter to the International Group saying that the $20 billion limit is "totally unrealistic and unacceptable." It could drive shipowners to seek insurance coverage from insurance companies other than P&I Clubs, the committee warned.

The Greek Shipping Co-operation Committee's chairman, John Hadjipateras, warned that "possibly most, but certainly many club members will be unable and/or unwilling to pay the amount which may be called for under the compromise proposal."

The July 4 meeting comes against a background of more difficult times facing P&I Clubs.

At last February's renewals, the International Group's exemption from European Union competition rule expired, and is now being considered by the European Commission's competition policy directorate. The International Group needs this exemption renewed if it is to retain its cartel status. Lloyd Watkins, the International Group's secretary, said he expects a "positive" response from the commission this summer.

After a period of relative stability the P&I clubs are also facing a combination of rising claims and stiffer competition. There is talk of them needing to increase members' contributions at the next renewals, but also uncertainty as to whether they will have the resolve to do this.

Yet another threat comes from the U.S. Oil Pollution Act, which threatens shipowners with ever higher liabilities for marine spills (*BI*, Dec. 26, 1994). One current concern is the Natural Resource Damage Assessment, which means that even a relatively minor oil spill in an environmentally sensitive area of the United States could result in millions of dollars in cleanup and compensation costs. BI

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PUBLIC SUMMONS RE BANKRUPTCIES OF KANSA GENERAL INTERNATIONAL INSURANCE COMPANY LTD AND KANSA REINSURANCE COMPANY LTD

INSTRUCTIONS TO THE CREDITORS OF BANKRUPT KANSA GENERAL INTERNATIONAL INSURANCE COMPANY LTD (HEREINAFTER KANSA GENERAL) AND KANSA REINSURANCE COMPANY LTD (HEREINAFTER KANSA RE) BOTH FROM HELSINKI FINLAND

Kansa General and Kansa Re were declared bankrupt by Helsinki District Court on December 30, 1994. On the creditors hearing on March 17, 1995 Helsinki District Court set a deadline for creditors to file written proofs of claim on or before 4 p.m. Finnish time (GMT + 2) September 15, 1995 (the "Bar Date").

The creditors of Kansa General and Kansa Re are summoned to file their written proofs of claim, with appendices, in duplicate counterparts, to the following address on or before the Bar Date:

Kansa General International Insurance Company Ltd, Bankrupt's Estate or

Kansa Reinsurance Company Ltd, Bankrupt's Estate

P.O. Box 45
00501 Helsinki
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or by telecopier to one of the following telecopy numbers:

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The written proofs of claim must state the claims and the basis thereof in accordance with Section 24 of the Finnish Bankruptcy Act. In case the documents are sent by mail, the envelope should be marked with "Written Proof of Claim in Bankruptcy" as well as the name of the bankrupt and the Bar Date. The written proof of claim must always include accurate contact information about the creditor or its representative, such as the address, telephone number, and telefax number ("Procedural Address") whereto, in case of a contested claim, information may be forwarded. Please note that the sending of the proofs of claim takes place at senders risk that if he/she neglects to file a proof of claim he/she forfeits any rights to receive payment from the bankrupt's estate.

The Administrators of Kansa General and Kansa Re have prepared standard proofs of claim forms that can be ordered from the above mentioned address, or by telephone at the following telephone numbers:

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

PBGC offers a model notice

By JERRY GEISEL

WASHINGTON—Employers with underfunded pension plans now have a model notice they can use to comply with a 1994 federal law that requires them to inform plan participants of how well their plans are funded and the limits of federal benefit guarantees.

The model notice, issued last week by the Pension Benefit Guaranty Corp. and published in the June 30 Federal Register, is expected to be used by many employers to meet reporting rules of the 1994 law, which also requires accelerated employer contributions to underfunded plans.

The notification provision was a congressional response to complaints that employees found out—only after their plans were terminated—that their plans were underfunded and that the PBGC did not guarantee all benefits their companies promised.

The notification requirement applies to employers whose pension plans are less than 90% funded. The notice must be distributed to participants within two months after a company files its annual pension financial report with the Internal Revenue Service.

The model notice requirement takes effect this year for employers with more than 100 participants in an underfunded plan and next year for plans with fewer than 100 participants. Employers that fail to provide a notice can be fined $1,000 per day.

The PBGC estimates 1,500 larger companies will have to provide the notice this year and 4,000 smaller employers will be affected next year. These plans have about 4.5 million participants. The notice requirement does not apply to the nation's 2,000 multiemployer pension plans.

While employers do not have to use the model notice, many are expected to do so because of assurance that it would pass muster. In addition, any individually tailored notice would have to include all the information required by PBGC regulations. Among the information companies will have to provide:

• The percentage of money the plan had to pay benefits promised to participants.

• A warning that if the plan is terminated, the PBGC will pay some but not all promised benefits.

For example, the model notice must detail the maximum benefit guaranteed by the PBGC. For a plan terminating in 1995, the PBGC will guarantee a monthly benefit of $2,573.86 or $30,886.32 a year. Those figures would have to be included and updated yearly. The notice also must explain the PBGC doesn't guarantee non-vested benefits and phases in guarantees of benefit increases over five years.

While the notice requirement gives employers a new filing requirement, the information—notably that of a plan funding level—will be useful to participants, said Kyle Brown, an attorney with Watson Wyatt Worldwide's Research and Information Center in Washington. BI

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Be ready to sue, in order to settle: Lawyer

By GAVIN SOUTER

NEW YORK—Policyholders must be prepared to go to court if they want to settle a coverage dispute with an insurer out of court, a lawyer for a chemical company says.

Insurers are tough negotiators in settlement discussions, so policyholders should be just as tough and take the case to trial if the settlement terms are unsatisfactory, he said.

Insurers often have the upper hand in negotiations with policyholders as they have exhaustive information on similar claims and costs, the lawyer noted.

But, by preparing an effective settlement team and by using sophisticated aids like computer models, policyholders can combat some of the disadvantages they face in settlement negotiations, David F. Snively, litigation counsel at Monsanto Co. in St. Louis, said during a recent seminar on coverage disputes sponsored by Law Journal Seminars-Press in New York.

When policyholders attempt to settle coverage disputes with insurers they should first ensure that they have a trial date established, Mr. Snively recommended.

"It's very difficult to drive toward a settlement without a judgment day and you must be prepared to go through with it," he said.

Insurers typically use hardball tactics in settlement negotiations, and policyholders should face up to that, Mr. Snively said.

The tactics include attempts to intimidate senior executives at a company through exhaustive discovery procedures, he said.

Also, insurers make it clear that if the case goes to trial they will seek not to pay the claims until after all appeals have been exhausted, which can take five years or more, Mr. Snively said.

And the offers they make during the negotiations often might be a fraction of what they would likely be required to pay if the case were taken through the courts, he said.

"They sometimes increase the offers dramatically on the eve of a trial," he added.

Insurers are also adept at exploiting their advantage in their access to information. "They deal with hundreds of insureds so they know what they paid in the past," Mr. Snively said.

To fight aggressive insurers, policyholders should first establish a settlement team, he said.

The team should include in-house counsel, outside counsel, the risk manager, an environmental expert in pollution cases, and possibly an independent insurance consultant, Mr. Snively said.

The team should then establish what coverage the company has.

"Going into settlement discussions you need a good list of policies and you need to understand what the coverage is," Mr. Snively said.

Also, the team must have a firm understanding of the law in the relevant jurisdiction and an understanding of how the law is likely to develop over the next several years.

Policyholders can also use computer models to project expected patterns for long-tail claims. The models can be adjusted to reflect different scenarios and different areas, Mr. Snively said.

Policyholders can improve their own bank of information by contacting other policyholders that have been in similar disputes with the same insurer, he said.

Policyholders should also be aware of the insurer's objectives, Mr. Snively said.

For example, insurers want to buy out the coverage with a once-and-for-all settlement, while a policyholder likely will want to have the coverage remain in place, he said.

Also, insurers may try to include in the settlement payment for third-party claims that may arise later on, he said. For example, in settling a pollution coverage dispute, the insurer may be reluctant to pay claims against the policyholder by a third party affected by the pollution after the coverage settlement.

"Personal injury and property damage claims may be large, so you may have to say that you can't give that up in a settlement," Mr. Snively said.

Negotiating with insurers in London can be even tougher than dealing with domestic insurers, he said.

One of the main problems is dealing with a range of different insurers on a syndicated risk, Mr. Snively said.

Policyholders in the United States can deal with the U.S. counsel for the London insurers up to a point, but the U.S. lawyers cannot authorize a settlement so the policyholders still have to travel to London to speak with the lead underwriter on a risk, he said.

"They are great negotiators and they are prepared to sit there and never pay a nickel to you unless you give them a good reason," Mr. Snively said.

And the insurers in London always settle gross amounts without taking into account the number of insurers on the policy that may have since become insolvent, he said.

To combat this, the settlement terms should be for specific dollar amounts paid in a specific period of time with an option to return to litigation if sufficient payments are not made, Mr. Snively said.

Other alternative dispute resolutions can be used to avoid litigation between policyholders and their insurers, said Jerold Oshinsky, a partner at Anderson Kill Olick & Oshinsky in Washington.

Non-binding arbitration includes "mini-trials," in which the case is argued in front of executives from the policyholder and the insurer who listen to the presentations and then try to settle the claim out of court, he said.

Alternatively, a mock trial can be argued in front of a mock jury, Mr. Oshinsky said.

"After the presentations the jury decides the case and talks to the parties about their strengths and weaknesses," he said.

Another non-binding alternative to a trial is to employ a mediator to shuttle between the two parties and then bring the policyholder and insurer together when a basis for negotiation has been established, Mr. Oshinsky said.

Binding arbitration is usually only used when it is included as a condition of the policy, such as in the policies issued by ACE Ltd. in Bermuda, he said.

In the case of ACE and other insurers that insist the arbitration should be conducted in London, U.S. policyholders need to consider whom to employ as legal counsel, Mr. Oshinsky said. "Do you want an all-English panel or do you want to include an American?" he said. BI

Dispute

Continued from page 3

side even less,' " Mr. Oster said.

According to research by trial consulting firm DecisionQuest, jurors are predisposed to find in favor of policyholders in 70% of coverage disputes.

Policyholders can improve their chances by focusing their arguments on the contractual issues of the coverage dispute and not letting the issue of liability dominate a case before a jury, Mr. Oster said.

"It's not a question of whether there is a liability, it's about who is going to pay for it," he said.

Arguing about liability for the underlying pollution case wastes time and confuses the jury, he said.

Jurors can only concentrate on a limited amount of details, agreed Donald E. Vinson, chairman of Torrance, Calif.-based DecisionQuest.

"We have a limited capacity as human beings to process information and deal with it," he said.

Consequently, policyholders should be aware of the five principal things that a jury concentrates on during a coverage dispute, Mr. Vinson said. They are:

- The character of a corporation.

Jurors will differentiate between large multinational companies and small local companies, or between polluting conglomerates and well-regarded local firms, he said.

- The behavior of the two parties in the dispute.

The jury will want to know, "What happened? Who did what to whom?" Mr. Vinson said.

- The motivation behind the behavior.

Mr. Vinson said jurors will ask: "Was it a large greedy insurance company or were they not paying the claims for sound reasons?"

- The consequences of the case.

For example, who is going to suffer as a result of the jury's decision and who will be enriched, Mr. Vinson said.

- Finally, jurors are concerned about other observers' expectations of them, he said.

Policyholders should focus on these key concerns of jurors and provide clear and punctuated messages to address the concerns, Mr. Vinson recommended.

"You will have a higher probability of catching their attention and persuading them," he said.

Policyholders also can use jury consultants to help determine the best way to present a case, Mr. Vinson said.

Consultants can help a policyholder understand how a jury will view its case and decide what to do about a potentially negative image, he said.

The consultants also can help policyholders select jurors and develop profiles of jurors who would likely be unsympathetic to their case, Mr. Vinson said.

The makeup of the lawyers presenting the case is also important, added Paul Hastings' Mr. Oster.

The numbers should be kept to a minimum, since jurors do not know whom to take guidance from when they have to listen to several different lawyers presenting the same case, he said.

Also, both men and women should be on the team, as both sexes will be represented on the jury, Mr. Oster said.

"It doubles your opportunity to have members of the jury identify with your side of the case. . .but make sure that both have significant roles," he added.

Once policyholders decide to go to court, they should strive to avoid delays and not waste time in exhaustive discovery procedures, said Richard E. Poole, a partner at Potter Anderson & Corroon in Wilmington, Del.

Insurers often are willing to draw out cases in order to put off the time when they will have pay out any claims, he said.

"You are plaintiffs and you want to get the case to trial and settled as soon as you can," Mr. Poole said.

Policyholders can help speed up a case if they focus on the fundamental facts they need to obtain during discovery and not waste time "looking under every pebble," he said.

Policyholders should also seek to have a date for the trial established as soon as possible. Even if the date is later postponed, it provides a target to aim for and usually helps to speed up the pretrial discovery, Mr. Poole said.

The use of good witnesses in pollution coverage disputes can be critical, said Lisa Latorre, a partner at Howrey & Simon in Washington.

Such coverage disputes often center on actions that took place decades ago and policyholders need witnesses who can take a jury back in time and articulate the practices that were then prevalent and the extent of environmental knowledge at the time of the contamination, she said.

Witnesses who were employed by the company can help paint a picture of a company that strived to act in accordance with the best practices of the past, Ms. Latorre said.

"Find one or two witnesses that personify the company and whose tone reflects decency and integrity," she advised.

Although former employees can help policyholders win their cases, they can also harm them with contrary testimony, she added.

"Carriers are chomping at the bit to interview former employees. They will use them to try and reconstruct history and show that the damage was expected or intended," Ms. Latorre said.

Often, former employees who are interviewed by an insurer's representatives were low-level and semi-literate personnel who may have had bad relations with the company and left many years ago, she said.

And often the first time they give any thought to the incidents that sparked the coverage disputes is when they are contacted by investigators hired by the insurers, which can color their recollection.

To limit the chances of damaging testimony being presented by former employees, policyholders should contact them first, Ms. Latorre advised.

Policyholders should send letters to the former employees informing them of the dispute and offer to represent them through a designated attorney, she said.

Expert witnesses should also be selected carefully, said Joseph D. Tydings, a partner at Anderson Kill Olick & Oshinsky in Washington.

"When you have an expert witness, the expert should not be an advocate, he should be a teacher," he said.

To help convey this image, policyholder lawyers should ensure there are opportunities during the trial for the experts to leave their chairs and present information from charts or other illustrations, Mr. Tydings said.

"Show him to be a fair-minded teacher," he said. BI

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44RSA

Funds

Continued from page 3

"Second injury funds are emerging as a major concern," said George Phillips, vp and actuary in the Hoboken, N.J., office of the National Council on Compensation Insurance.

Eight states recently have closed their funds to nearly all new claims or significantly restricted their operations: Alabama, Colorado, Connecticut, Kansas, Maine, Minnesota, Oregon and Utah.

"I definitely think there is a trend, so I would expect more states to abolish SIFs," said Roger J. Thompson, director of workers comp strategies for The Travelers Insurance Co. in Hartford, Conn.

According to Mr. Thompson's calculations, "we are starting to see more attention placed on the negative economic effect of these funds, especially in Florida, Kentucky and New York."

The SIF concept was developed to deal with the problem of successive injuries. For example, an employee blind in one eye who loses sight in the other eye suffers total blindness, which is a significantly greater disability.

Before the funds were created, the workers comp process either penalized the worker, by limiting compensation benefits to the disability directly associated with the second injury, or penalized the employer, by requiring the company to pay the combined resulting disability.

While a dozen states had SIF-type mechanisms by World War II, the concept spread after the war to nearly every state as a way to help make disabled servicemen more employable.

The funds, which are administered by the states, were "an ingenious device to prevent injustice to either the employer or the injured worker," Mr. Thompson said in a paper published in the Spring 1995 Journal of the International Assn. of Industrial Accident Boards & Commissions. "They allow for compensation to be paid to the injured worker for the total disability resulting from the combined injuries, but the employer is responsible only for the compensation associated with the second injury. The remaining portion of any continuing benefits is payable from the fund."

As a result, SIFs also helped encourage employers to hire people with pre-existing disabilities.

From a financial standpoint, SIFs operate on a pay-as-you-go basis. Depending on the state, money is collected to pay costs that are anticipated in the next quarter or year, though no reserves are established.

All employers are assessed a uniform percentage of either premiums or paid losses, the NCCI's Mr. Phillips said.

Essentially, individual employers are not charged based on their use of the funds because of the way assessments are collected and experience ratings are calculated, he added.

"Initially, SIFs were limited to cases where the combined injury resulted in permanent total disability. Also, employers had to prove that they had knowledge of the worker's pre-existing condition at the time of hire in order to get reimbursed or transfer the claim" to the fund, said Mr. Phillips.

"Several states have broadened the scope of their funds by lowering the threshold to include any increase in disability, by allowing any type of pre-existing condition and by not requiring prior knowledge by the employer," he added.

Essentially, "if a claim is eligible for the second injury fund, it is typically a serious and expensive injury," said Barry Lewellyn, senior vp and actuary in the NCCI's Hoboken, N.J., office.

The net result was that fund growth and assessments to cover SIF obligations have grown dramatically in a number of states.

SIF expenditures in 1993 reached nearly $77 million in Florida, $112 million in Kentucky and $109 million in New York.

In addition, "some states also have accrued substantial unfunded liabilities. For example, recent actuarial studies of the Kentucky and Connecticut SIFs estimated their unfunded liabilities at $1.8 billion and $6 billion, respectively," the NCCI's Mr. Phillips said.

SIF liabilities developed, in part, because of the funds' low profile and the way they operated.

"Savvy employers and insurers tapped them," said Keith Bateman, vp-policy development in the workers comp and commercial lines division of the Alliance of American Insurers in Schaumburg, Ill.

However, "historically, employers and insurers didn't contest second injury fund claims to a great extent because they didn't bear the total cost," said Joyce Sewell, director of industrial accidents at the Industrial Commission of Utah in Salt Lake City.

Also, the funds were "very poorly administered and represented," Mr. Bateman said.

"Second injury funds are rarely defended properly and are not a very satisfactory mechanism," said Douglas Stevenson, executive director of the National Council of Self-Insurers in Chicago.

Increased legislative scrutiny of the SIFs stemmed from their financial plight as well as the passage of the Americans with Disabilities Act.

"This federal legislation provides many of the same legal protections for disabled workers that second injury funds encourage in a more roundabout way," Mr. Phillips said. "The ADA prohibits discrimination on the basis of disability in the hiring, treatment and termination of employees, restricts prospective employers in inquiring about existing disabilities prior to making a job offer and requires reasonable accommodations in the workplace."

The national AFL-CIO is "very troubled" about the trend toward curtailing SIFs and fears that the ADA may not be enough to adequately protect workers, said James Ellenberger, assistant director of the union's department of occupational safety and health.

"As I see it, they are using the ADA as a convenient excuse to eliminate second injury funds, when the problems have been caused by misuse by employers, insurers and politicians. I think the state legislators have been buffaloed into pursuing a policy that is morally bankrupt," he said.

Other observers, though, disagree with his assessment.

Connecticut's labor officials "were 100% supportive" of significantly curtailing the SIF—which they described as "the black hole"—in hopes of improving worker retraining and relations with employers, said Bonnie Stewart, counsel at the Connecticut Business & Industry Assn. in Hartford, Conn.

Travelers' Mr. Thompson acknowledged that eliminating SIFs may create "inequities" but said they also apply to employers as well as employees. For example, Connecticut law still requires the employer of an employee with some pre-existing conditions to be liable for the full extent of the worker's combined disability, rather than just the subsequent injury.

While Mr. Thompson says he is not aware of states eliminating pre-existing condition coverage for workers, Utah's Ms. Sewell predicts that it may happen.

The workers compensation climate does change in states that eliminate SIFs, sources say.

In terms of finances, "the initial effect of eliminating or restricting a SIF is an increase in rates to account for the losses, which are no longer transferable," the NCCI's Mr. Phillips said. However, those increases will likely be less than what SIF assessments would have been if the funds continued unchecked.

"Individual employers whose claim experience includes second injuries also would be affected through experience rating," Mr. Phillips said. "The experience rating modifications for these employers would increase since the losses used in the calculation would no longer exclude the second injury fund's participation," he said.

In addition, the workers comp system in those states may become more litigious, said Ms. Sewell, who is a member of the IAIABC's Executive Committee. "Now it will be highly contentious to get permanent total (ratings) in a state that has abolished a fund because insurers and employers will be more inclined to fight them," she said.

"There are a lot of facets to this," she added. "I think it will bear watching." BI

Satisfied

Continued from page 3

managed care plans to improve for our members' employees."

Mr. Boress stressed that the quality improvements made will not be limited to employers in the coalition but will benefit the general payer community.

The Chicago project was a "unique project, very broad in scope, and it's really a joint venture between the health plans and the employer groups," said Frank Nicholson, president of the Illinois Assn. of HMOs and also vp of HMO Illinois, a unit of Blue Cross & Blue Shield of Illinois. "We all have the same objectives in mind, and that is to provide the best possible service, both on the clinical side and on the administrative services side."

"I'm very excited about the fact that we did this," said Alan Peres, manager of benefits planning for Ameritech Corp. in Chicago, which participated in the project. "We got 14 employers and seven health plans to agree to do this and that was a big, big deal."

Unlike some other employer initiatives to measure employee satisfaction, the Chicago Health Plan Value Project "is a multidimensional assessment of managed care," pointed out Paul Knuti, senior vp of human resource policy at First Chicago Corp., which also participated. "We used employee satisfaction measurement techniques but also folded in an employer survey and a set of objective measurements" to measure quality and cost-effectiveness.

The high level of satisfaction among employees using HMOs didn't come as a surprise to many benefit managers offering the plans, but it is good news to those who have been struggling to convince senior management—and employees—that managed care can control costs without compromising quality.

Overall, 84% of employees surveyed reported satisfaction with their managed care plans, including HMOs, point-of-service plans and preferred provider options.

Employee satisfaction was highest, however, for employees enrolled in mixed model, IPA and staff model HMOs. Employees reported lower satisfaction levels for PPOs and POS plans.

According to the survey, employees tend to be most satisfied with the medical care quality, range of services covered and protection from financial hardship provided by managed care plans. Conversely, the things employees were least satisfied with were quality of customer service, out-of-pocket costs, convenience and ease of using services and available selection of physicians.

The data showing a link between out-of-pocket costs and employee satisfaction levels was an eye-opener for participants.

"It's one of the most significant findings because employers by and large were looking to point the finger at health plans," Ms. Kairey explained. "How much employees pay out of pocket, however, is largely driven by the employer, so it's also their responsibility."

In addition, "you can have a health plan that is incredibly efficient and effective, but if employees feel they are paying too much for it, the health plan could be downgraded because of it," said Mr. Nicholson of HMO Illinois.

Much of the health plan cost shifting in the past by employers was done mindlessly and should be reviewed, suggested First Chicago's Mr. Knuti. "We aren't likely to change our cost-sharing approach because our philosophy is that it's appropriate, but we will step back and evaluate how we design the benefit," he said.

"The question now is how can we design a plan that represents a good value to the employee? We'll improve communications to employees about how the plans work and the value they bring," he said.

Managed care plans also scored well in terms of how effectively they control costs, according to the Chicago project's findings.

IPA model HMOs—which contract with individual physician practices—were rated highest for cost-efficiency, followed closely by staff and mixed-model HMOs.

PPOs rated slightly lower than the HMOs in terms of cost-effectiveness, while POS plans were rated least cost-efficient.

To measure cost-effectiveness, Hewitt looked at several influencing factors, including total cost, cost-sharing strategies and the total number of plan options.

Hewitt declined to provide information on the savings employers could achieve if all health plans were operating at optimum cost-efficiency, but Ms. Kairey said, "there is room to improve costs."

She stressed that the finding that POS and PPO plans were less cost-effective might not be replicated in other markets. "POS is fairly new to Chicago, but PPOs and HMOs have been around a long time and are very competitive."

That also may be one reason employees report lower satisfaction with POS plans, she added.

To measure managed care plan performance, Hewitt examined a broad range of indicators that influence cost, access and quality. Each indicator was then scored based on how well it rated against benchmarks of expected performance levels.

Among the findings: HMOs rate highly on financial indicators like reimbursement schemes, payment methods, daily costs and per capita costs. HMOs came out on top in this area primarily because they have negotiated capitation and salary agreements with physicians and they are, by definition, better able to govern access to physicians than are POS and PPO plans.

HMOs also rated better than POS plans on their ability to provide HEDIS data. POS plans, though, rated better than HMOs on access. Ms. Kairey said that is probably because POS plans initially built their provider networks around employer needs. And, she said, POS plans often are introduced as a replacement for indemnity plans, which means it's critical for them to gain employee acceptance by furnishing a broad network of providers.

Hewitt reported difficulty comparing PPOs with POS and HMO plans, primarily because they have much different plan designs and reimbursement arrangements. However, when comparisons could be made, PPOs' results were generally less favorable. For example, PPOs' performance fell short of HMO and POS plan performance in three categories: financial indicators, customer and administrative services and operational effectiveness.

"We need to take a closer look at PPOs," Ms. Kairey said. "We've let them off the hook in many ways because they don't have to meet the same types of requirements that HMOs do, like NCQA accreditation and HEDIS requirements."

The Chicago project study also identified dramatic differences in costs among employers contracting with the same health plans.

"Employers got a wake-up call. The true value of the study is looking at why results are so different for employers that use the same health plans," Ms. Kairey noted. Employers that want to improve their results may have to sharpen their negotiation skills and take a closer look at plan design and whether employee volume in various health plans is sufficient to get the best deal, she said.

The participating employers and health plans now are poring over the results and identifying action steps. While some changes could be made in time to impact the 1996 plan year, Ms. Kairey doesn't expect "monumental shifts in plan offerings."

"Our first priority is to sit down together with the health plans and Hewitt to figure out what are the big things we want changed," Mr. Peres said. "We know they can't do this as an individual company, so we'll have to sit down as a group to figure out where we can use our leverage most.

"We won't all get what we want," he admitted. "Some employers may want to improve administrative efficiencies, others employee health status and others the level of satisfaction in each area. But we must also understand the linkages between each of those areas, because once you push one, it impacts another."

The participating employers were: Ameritech Corp.; Arthur Andersen & Co. S.C.; Bank of America; First Chicago Corp.; Hewitt Associates L.L.P.; Kraft General Foods Inc.; Marriott International Inc.; the Marshall Field's division of Dayton Hudson Corp.; Navistar International Transportation Corp.; The Northern Trust Co.; The Quaker Oats Co.; Sears, Roebuck & Co.; UAL Corp.; and Whitman Corp.

The participating health plans were: Aetna Health Plans of Illinois Inc.; Chicago HMO Ltd.; HMO Illinois; CIGNA HealthCare of Illinois Inc.; Humana Health Plan Inc.; The MetraHealth Cos.; and Rush/Prudential Health Plans.

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Complete copies of the Chicago Health Plan Value Project are available only to employer and health plan participants, but the Chicago Business Group on Health will distribute summary reports. The cost of those reports has not yet been determined.

California

Continued from page 2

the bills and is regarded as an adversary by some in the managed care industry.

"If people in other states are looking at how managed care is regulated, they look at a state that has had managed care for a long time," said Robert Steil, senior counsel in Chicago for the Health Insurance Assn. of America, which opposes the measures.

California certainly is the place where health care trends are set. As of July 1994, there were nearly 11.3 million enrollees in California health maintenance organizations, or 35.3% of the state's population, according to InterStudy, a Bloomington, Minn.-based health care research company. Nearly 45% of the state's insured population is in HMOs, InterStudy said.

In 1994, 25 managed care reform bills were introduced in the state Legislature, said Jim Gonzalez, a lobbyist for FHP International, a Fountain Valley, Calif.-based HMO. This year, 80 reform bills were introduced, though the number has been whittled down to a half-dozen addressing key issues.

But, "just one of them could be devastating," he said.

Key reform measures include:

- A.B. 1663, which would require health plans and disability insurers to let patients have at least two additional medical experts review decisions denying "experimental" treatment. Under the bill, if at least one independent medical expert finds that the treatment is medically appropriate, the insurer or health plan would have to pay for the service.

The bill was sponsored by the California Medical Assn., which says that recent litigation over coverage exclusions point to the need for patient protection. Among the court cases cited was the whopping $89 million California jury verdict against an HMO that denied coverage for a breast cancer patient's bone marrow transplant because the treatment was considered experimental or investigational. The patient died, and her husband and estate sued the HMO for breach of contract and for bad faith (*BI*, Jan. 3, 1994).

- A.B. 1152, which is a variation of so-called "any willing provider" bills. The proposed legislation would require health plans to cover services provided by an enrollee's "traditional provider," even if the doctor is not under the plan's contract. The traditional provider would be subject to the same credentialing, utilization review and quality assurance requirements as the plan's contracted providers but would not be contracted to the plan. Payment would equal the average rate paid to contracted physicians.

Typically, any-willing-provider measures prevent managed care organizations from refusing to contract with physicians who meet the contracting requirements and agree to contract terms.

- A.B. 1840, which would prohibit health plans and utilization review providers from holding themselves harmless in contracts with providers when a denial of service results in harm to a patient. The bill is supported by the California Medical Assn. and sponsored by the California Psychological Assn.

Health care providers argue that under managed care, HMO administrators—not the treating physicians—are the ones directing the services doctors provide.

The California Medical Assn. contends the reform legislation is needed because there are few ground rules governing how HMOs operate. The association argues that a huge regulatory and legislative void exists because most laws regulating HMOs were written in the 1970s, before the current boom in HMOs and other managed care plans.

However, anti-managed care mandates fail to acknowledge managed care's gains for employers and marketplace achievements, said Suzanne Mercure, benefits administration manager in Rosemead, Calif., for Southern California Edison Co., which contracts with six HMOs and two point-of-service plans.

Employers, providers and insurers need to cooperate to further the development of quality measurements, standards and perhaps accreditation, she said.

Employer groups generally oppose the reform legislation, fearing it will erode the considerable savings generated by managed care.

"Most of the legislation (now in Sacramento) basically places mandates on the way health care is delivered," said a spokesman in Sacramento for the California Public Employees Retirement System, which administers health and retirement plans for thousands of state and local employees. "From our perspective, we would rather have mandates come from our members. We don't want these mandates imposed on us."

More than 810,000 CalPERS members are enrolled in 16 HMOs. Through negotiations, CalPERS has been able to keep a lid on health insurance costs and believes the proposed legislation could reverse market forces that have lowered those costs, the spokesman said.

"Anything that adds to or drives up the cost is not going to sit well with employers," he added.

The California Manufacturers Assn. also says the bills would drive up employers' costs and contends the any-willing-provider legislation in particular would remove employers' control over their health plans, said Willie Washington, legislative director of human resources issues for the association in Sacramento. Employers almost always negotiate health care coverage without allowing employees to define their own individual options, he noted. Any-willing-provider measures could cause employers to lose control of their plans, Mr. Washington argued.

"Especially if you have a union. You could end up with a whole population deciding to go outside" the managed care network, he said.

This would cost employers more because they typically negotiate discounts with providers based on the number of employees they will enroll in a plan, he said.

The California Chamber of Commerce in Sacramento has helped form a coalition called Californians for Quality Patient Care to lobby against the legislation.

The new group is composed of small businesses, insurers, HMOs and managed care networks that plan to lobby legislators and educate employers in the state on the issues raised by the bills.

The flurry of legislation in California comes just when a key supporter of the bills, Assemblywoman Allen, has been elected as speaker of the Assembly—the second most powerful post in the state.

Observers expect additional anti-managed care legislation will be introduced during the new speaker's watch.

"She has some personal involvement (with managed care), not involvement as a businessperson, where this legislation would have its greatest impact," said Allan Zaremberg, chairman of the Californians for Quality Patient Care coalition and senior vp of the California Chamber of Commerce.

In addition, Assemblywoman Allen on June 22 announced she will remain chairwoman of the Assembly's Health Committee for the 1995-1996 session. That is an unusual move that some observers are taking as a further sign of her personal interest in managed care. They say she could be waiting to find a like-minded Republican to replace her on the committee before relinquishing her position.

The story of how the speaker's mother nearly died at the hands of HMOs has been making the rounds in Sacramento, where anecdotes about care under HMOs are shaping the reform battle.

Assemblywoman Allen has said her mother almost died five years ago because of managed care policies imposed on providers by her mother's health insurers. Her mother was hospitalized for a heart attack and was not given breathing assistance because she had signed a form stating she did not want resuscitation.

After the assemblywoman arrived at the hospital, her mother received breathing support and is alive today.

The new speaker supports the California Medical Assn., the physician group that has sponsored several of the managed care reform bills and backed others.

"It's become a huge legislative issue," said a spokeswoman for the CMA. "Ms. Allen has been very vocal articulating her individual experience involving herself and her family. She has been very vocal calling for reforms."

As chairwoman of the Assembly's Health Committee, she fought to keep the bills in her sphere rather than allow them to pass to the Insurance Committee, where it might have been easier for opponents to quash the legislation.

The assemblywoman has been in the news widely because her June 5 election to speaker of the Assembly was engineered by former speaker Willie Brown, a Democrat from San Francisco who ran the Assembly for nearly 15 years, in exchange for political concessions.

Assemblyman Brown's departure from the post to run for mayor of San Francisco was supposed to be the Republicans' day to celebrate; instead, they are raising money for a recall effort against the new speaker, whom they accuse of being the former speaker's puppet.

Assemblywoman Allen won the speaker's post with 39 Democratic votes and her own ballot, while no Republicans voted for her.

"There is a lot of turmoil across the street right now," the CalPERS spokesman said of the situation in the Assembly. By many accounts, the legislative chamber is in chaos.

The tumultuous environment might require all of Assemblywoman Allen's attention and limit her impact on the managed care reform movement, some say.

However, legislation in California has a two-year life, meaning the current legislation still could be around next year.

HMOs and providers will be lobbying the new speaker in a contest to define who is a better advocate of the patient, said FHP's Mr. Gonzalez.

Health insurers and managed care companies are treading carefully on the subject of the new speaker of the Assembly. Sacramento insiders view irking her as political suicide.

Many are sitting on the sidelines, waiting for the dust to settle.

"We are all kind of laying low right now," said Chuck Bader, executive director of Sacramento-based employer group Californians for Compensation Reform.

However, Mr. Bader described Assemblywoman Allen as a "good vote for employers," noting that a probusiness alliance of Republicans and conservative Democrats might emerge under her leadership. BI

Updates

Confed rehabilitator files suit

Continued from page 2

value of more than $50 billion, but less than 1% of those notes were paid in full, the suit alleges.

The suit alleges that the directors carried out the scheme to address Confed's sinking financial condition at the urging of Ernst & Young and that Harris Trust failed to meet its duties by not questioning the fact that large sums of money were being withdrawn from the trusts.

FHP to expand services

FOUNTAIN VALLEY, Calif.—FHP International Corp. plans to dramatically restructure its 57 medical centers to accept fee-for-service patients and provide services to other health maintenance organizations and preferred provider organizations.

The Fountain Valley, Calif.-based HMO's plan involves creating a physician practice management company, to be called Comprecare Medical Group, that will encompass FHP's staff model operations in Arizona, California, Nevada, New Mexico, Utah and Guam. Regulatory approval for the new company, which will include more than 500 doctors and 95 dentists and have more than $350 million in annual revenue, is expected by Jan. 1. FHP also plans to sell its four hospitals.

"This plan would enable us to go out and seek out other sources of revenue so we would no longer be forced to only see FHP members," said a spokeswoman. "This change is practically invisible to our members," she added. "FHP will contract with Comprecare just like it would with any other group and would pay market rates."

Analysts praise the reorganization as a smart strategic move for the company, which could over the long term become an important competitor in the physician hospital organization business.

ALM supports Lloyd's plan

LONDON—Lloyd's of London members showed overall support for the market's reconstruction and renewal plan during the Assn. of Lloyd's Members' annual general meeting last week.

But the support came with some caveats. ALM Chairman Sir David Berriman called the plan a "bold and imaginative way forward," but would like Lloyd's to offer safeguards to names if runoff reinsurer Equitas Ltd. fails and claims revert to the membership.

Alan Porter, chairman of two action groups, including the Cuthbert Heath Names Assn., said he would like to see the £2.8 billion ($4.36 billion) allocated to end members' litigation increased to £4.5 billion ($7.19 billion). Additional contributions should come from Lloyd's brokers, which earned more than £9 billion ($14.39 billion) in commissions between 1988 and 1992—about as much as Lloyd's names lost, he said.

Meanwhile, action group attorney David Tiplady, partner at D.J. Freeman, told the ALM audience that he has asked Justice Cresswell, who is managing Lloyd's cases in commercial court, for a "moratorium" on all members' litigation until next year. Such a moratorium would give members time to decide whether to accept or reject the settlement offer. The moratorium would exclude action group litigation that has been decided or is already in trial.

Briefly noted

Lloyd's of London underwriters need not post a $475 million bond prior to litigating a pollution coverage dispute with Lockheed Martin Corp., a California superior court judge ruled. Lockheed had attempted to use a provision in California's insurance code that requires non-admitted insurers to post a bond prior to a coverage dispute (*BI*, June 19). . . .The Senate has begun considering S. 343, the **Comprehensive Regulatory Reform Act of 1995**, which would subject most proposed federal regulations with an annual economic impact of more than $50 million to cost-benefit and risk assessment analysis. . . .Gov. Christine Todd Whitman signed a bill requiring insurers to pay for a **second day of hospital care for mothers** and their newborns, making New Jersey the first state to give a mother, not her doctor, the final say on whether another day is needed. . . .Richmond, Va.-based **Trigon Blue Cross/Blue Shield** has asked the Virginia State Corporation Commission to approve a demutualization plan that would transform Trigon into a stock company. . . .California Department of Insurance officers on June 29 arrested 10 people for fraud in connection with **Amerimed Medical Corp.**, two years after search warrants were served at the company's eight clinics. James W. Eisenberg, 54, of Santa Monica and Michael J. Lightman, 46, of Rancho Palos Verdes are charged with spearheading the operation and are being held in lieu of $2.5 million bail each. . . .Florida Gov. Lawton Chiles has asked the state Supreme Court to affirm his authority to approve a **$1.5 billion line of credit** for the Florida Residential Property & Casualty Joint Underwriting Assn. . . .**Texas Gov. George W. Bush** has signed legislation that allows health care providers to provide services to managed care plan members without becoming licensed as a health maintenance organization (*BI*, June 12). Gov. Bush vetoed the Patient Protection Act, which would have required managed care plans to disclose more information to enrollees. . . .The U.S. Senate last week approved a bill that would make it more **difficult for shareholders to sue** corporations. A comparable bill was approved by the House in March. A joint bill will now be hammered out by conference committee. It is unclear whether President Clinton would sign the final legislation. . . .The **collapse of a five-story department store** last Thursday in Seoul, South Korea, may be uninsured for property damage and have "very small" liability limits, a London-based broker said. At least 80 people died and more than 800 were injured when the top floor of the Sampoong Department Store caved in, causing the structure to collapse. . . .A special conference of the International Air Transport Assn. concluded that airlines should increase their **liability limits on passenger tickets** to at least 250,000 Special Drawing Rights ($390,300) from the range of $10,000 to $153,000 that exists today.

MSAs

Continued from page 2

more careful in their health care buying decisions and thus keep prices in check, said Rep. Archer.

The idea got a boost from one of the nation's largest retail stores as well. Charles R. Rateliff, senior vp-benefits administration and risk management for Bentonville, Ark.-based Wal-Mart Stores Inc., called MSAs "simply an excellent idea." They would give consumers more control of their health care dollars, lead to more portability of coverage and, in the long term, lower health insurance costs, he said.

Although the subcommittee was generally receptive to the MSA idea, its ranking minority member, Rep. Fortney "Pete" Stark, D-Calif., blasted the MSAs as a "scam" that would be "especially skewed to help healthy people in high tax brackets." Rep. Stark, an advocate of a single-payer health care system, said that "those who are sick and the taxpayers will be paying for the windfall that will go to these rich folks."

A few minutes later, Rep. Dick Chrysler, R-Mich., retorted that the "only scam" was the fact that previous MSA bills had never been allowed to be voted out of committee. Rep. Chrysler, who appeared before the subcommittee as a witness, said RCI Inc., his own Brighton, Mich.-based small manufacturer, initiated an MSA plan about a year ago and has had its annual health care expenditures per employee fall by 14.3% to $4,200 from $4,800.

Rep. Jacobs countered Rep. Stark's criticism by saying a "falling tide lowers all prices." Medical providers will have to compete for customers, which means prices will fall for those with MSAs and those without, he said.

Rep. Ben Cardin, D-Md., was more cautious. While MSAs should not be subject to discriminatory taxation, Congress must ensure they don't promote adverse risk selection, he said.

Peter Hendee, a consulting actuary with Odell & Associates Inc. of Winston-Salem, N.C., called MSAs a "promising health care financing mechanism" that deserve the same tax treatment as other benefit mechanisms. But he warned that state benefit mandates could hamper the establishment of MSAs. Those laws would require the MSA benefit plans to offer a level of benefits that would fall below catastrophic coverage. Such laws would have to be pre-empted or the definition of catastrophic changed, Mr. Hendee said. BI

Superfund

Continued from page 2

contains most of the recommendations that RIMS has made. While we disagree with the 1980 date, we understand its rationale and we're going to work with Superfund Reform '95 to get more information regarding the 1987 cutoff date to Sen. Smith and hopefully move this forward," said Paul Brown, director-government affairs for the Risk & Insurance Management Society Inc. in New York.

"Superfund Reform '95 wants to ensure that truly innocent parties—including those whose disposal activities after 1980 were in accordance with government directives, permit or advice, as well as parties who cannot fairly be characterized as polluters—are not unfairly subjected to Superfund liability," said George D. Baker, executive director of Superfund Reform '95, an insurer-backed coalition in Washington that advocates abolishing Superfund's retroactive liability. He said the outline offered "far-reaching, broad-based reform."

Sen. Smith requested that comments on his outline, including name, address and telephone number, be sent by July 10 to Jeff Merrifield, Counsel, Subcommittee on Superfund, Waste Control and Risk Assessment, 415 Hart Senate Office Building, Washington, D.C. 20510. BI

Insurers' appeal for bigger share of sunken gold denied by court

By LEE VELKER

RICHMOND, Va.—Insurance companies will receive 10% of approximately 1½ tons of gold that was recovered from the 1857 sinking of the steamship S.S. Central America under a federal appellate court ruling last month.

The 4th U.S. Circuit Court of Appeals in Richmond, Va., released the decision June 14, upholding a ruling by a U.S. District Court.

The New York Superintendent of Insurance and eight insurers that said they or their predecessor companies had paid claims on the lost gold had appealed a 1993 ruling by the U.S. District Court for the Eastern District of Virginia that Columbus-America Discovery Group is entitled to 90% of the gold (*BI*, July 9, 1990).

The Columbus, Ohio-based group was formed by treasure hunters to search for the gold, which it recovered in 1987 after years of research.

In a typical case, salvagers are awarded less than 50% of a ship's worth. But the 4th Circuit found that this case was anything but typical. "What (Columbus-America founder Thomas) Thompson and Columbus-America have accomplished is, by any measure, extraordinary," U.S. Circuit Judge Kenneth K. Hall wrote.

The District Court had based its decision on the long period of time during which the insurers neglected the wreck and the effort put forward by the salvagers.

Columbus-America invested more than $8.4 million and in excess of 411,295 hours of labor in searching for and salvaging the gold.

The insurers' appeal also requested that the approximately 1½ tons of recovered gold be divided before sale, so they would receive actual gold rather than revenue from the sale.

"Ordinarily, we might agree with the underwriters' position. The difficulty in this case, however, is there is just too much gold involved to allow more than one party to market it," Judge Hall wrote.

The appealing insurance companies were: Atlantic Mutual Insurance Co., Insurance Co. of North America, Salvage Assn., London Assurance, Alliance Assurance Co. Ltd., Royal Exchange Assurance, Indemnity Marine Assurance Co. Ltd. and Marine Insurance Co. Ltd.

The S.S. Central America sank about 160 miles off the South Carolina coast on Sept. 12, 1857.

In addition to taking nearly 400 lives, the amount of gold lost in the wreck had a significant impact on the financial markets at the time. BI

BI Insurance Index

1,040
1,020
1,000
980
960
940
920
900
880
860

5/12 5/19 5/26 6/2 6/9 6/16 6/23 6/30

Base=100 on Dec. 29, 1978

Source: Nordby International Inc.

Catastrophe insurance option call spreads

As of June 30

Call spread	Price bid/ask	Rate on line %	Call spread	Price bid/ask	Rate on line %
Eastern September 1995			**Western Annual 1995**		
45/65	6.5/7	32.5/35	20/30	—/—	—/—
50/70	5.9/6.5	29.5/32.5	30/40	—/—	—/—
60/80	4/6	20/30	30/50	—/—	—/—
100c	8.5/12	8.5/12	50/70	—/—	—/—
150c	4.5/5.5	9/11	60/80	—/—	—/—

Total volume: 38 Total open interest: 2,436

For quotes, call the CBOT trading floor at 312-341-3342. For general information, call 312-435-3674.

Source: Chicago Board of Trade

British Issues

June 29 Companies	Price pence	P/E	Div. pence	Yield %	1 week high—low
Comml Union	577	11.6	33.0	5.7	588—575
Genl Accident	571	8.4	36.3	6.3	578—571
Gdn Royal Exch	201	N/M	*10.3	5.1	203—198
Independent	284	7.9	*11.9	4.2	289—284
Royal	305	5.8	*15.0	4.9	313—305
Sun Alliance	326	11.0	*19.7	6.0	328—326
Brokers					
Bradstock	60	6.7	7.1	11.8	63—60
Fenchurch	148	10.3	10.0	6.7	153—148
CE Heath	203	12.8	20.0	9.8	205—203
JIB Group	120	10.4	9.4	7.8	127—120
Lloyd Thmpson	154	10.7	9.8	6.4	160—154
Lowndes Lmbrt	164	9.2	10.3	6.3	164—154
Nelson Hurst	148	11.5	8.3	5.6	148—148
PWS Holdings	16	N/M	0.8	5.0	17—16
Sedgwick Grp	140	12.7	8.1	5.8	144—140
Steel Brl Jones	85	10.0	11.3	13.3	87—84
Willis Corroon	153	N/M	8.3	5.4	154—153

Source: Philip Olsen, London * Estimated 1994 data

BI Industry Stock Report JUNE 26, 1995, THROUGH JUNE 30, 1995

Company	Exchange	Price	Weekly % change	Year to date % change	Annual High	Annual Low	Vol.(000)	$ Div.	% Yield	P/E	Book value	Mkt./Bk. value
BROKERS												
Acordia Inc.	NYS	32.13	1.56	-4.10	34.50	24.63	63	0.72	2.24	16	13.24	2.43
Alexander & Alexander	NYS	23.88	2.12	29.05	26.44	16.38	314	0.10	0.42	-13	6.08	3.93
E.W. Blanch Holdings Inc.	NYS	18.63	-0.67	-9.70	23.00	17.50	72	0.40	2.15	15	4.55	4.09
Gallagher Arthur J. & Co.	NYS	36.38	1.38	13.67	36.38	29.00	50	1.00	2.75	16	6.48	5.61
Hilb, Rogal & Hamilton	NYS	12.50	-1.96	3.09	13.13	10.50	144	0.56	4.48	15	4.72	2.65
Marsh & McLennan	NYS	81.13	-0.15	2.37	88.38	71.25	423	2.90	3.57	16	19.40	4.18
Poe & Brown	NDQ	23.25	0.00	6.90	24.50	19.50	228	0.48	2.06	15	4.49	5.18
BROKERS	AVERAGE		0.3	5.9					2.5	11		
INSURERS/REINSURERS												
ACE Ltd.	NYS	29.00	-5.32	24.06	31.38	20.75	973	0.56	1.93	-13	22.45	1.29
Acceptance Insurance Cos.	NYS	14.50	1.75	-3.33	18.00	12.63	107	0.00	0.00	8	9.83	1.48
AEGON N.V.	NYS	34.88	1.44	37.30	35.38	20.69	49	3.60	10.32	13	43.84	0.80
Aetna Life & Casualty	NYS	62.88	-0.80	33.42	64.25	42.25	1721	2.76	4.39	12	57.21	1.10
AFLAC Inc.	NYS	43.75	0.00	36.72	44.75	31.63	630	0.52	1.19	15	57.21	0.76
Allied Group Inc.	NDQ	28.50	-1.32	15.15	31.00	22.00	378	0.68	2.39	6	23.43	1.22
Allmerica Prop. & Casualty	NYS	22.13	5.96	31.11	22.50	14.25	283	0.16	0.72	10	19.45	1.14
Allstate Corp.	NYS	29.63	-5.20	24.74	31.88	22.63	2401	0.78	2.63	10	19.60	1.51
American General	NYS	33.75	-1.83	19.47	35.50	25.63	1900	1.24	3.67	13	20.39	1.66
American Heritage Life Ins.	NYS	21.25	4.94	11.84	21.25	16.25	39	0.68	3.20	12	12.42	1.71
American Indemnity/Fin'l	NDQ	10.88	1.16	7.41	12.75	10.00	31	0.28	2.57	3	15.92	0.68
American International	NYS	114.00	-2.25	16.33	119.50	87.63	2510	0.51	0.45	16	49.75	2.29
American Re Corp.	NYS	37.25	-5.41	15.50	39.88	25.25	200	0.32	0.86	15	16.85	2.21
Aon Corp.	NYS	37.25	-0.35	16.41	38.00	29.25	500	1.36	3.65	12	21.96	1.70
Argonaut Group	NDQ	31.75	0.00	12.39	32.50	27.25	92	1.32	4.16	11	29.80	1.07
AVEMCO Corp.	NYS	17.38	1.43	13.01	18.25	13.38	222	0.44	2.53	14	6.30	2.76
Baldwin & Lyons Inc.	NDQ	15.50	-3.13	5.08	17.63	14.50	11	0.32	2.06	11	13.56	1.14
Berkley W.R. Corp.	NDQ	35.50	-0.36	-5.33	39.63	32.50	248	0.48	1.35	19	36.47	0.97
Berkshire Hathaway Inc.	NYS	23450.00	-3.10	14.95	25200.00	16100.00	0	0.00	0.00	57	9157.79	2.56
Capital RE Corporation	NYS	26.00	4.50	-5.02	27.38	20.50	52	0.20	0.77	9	21.48	1.21
Capsure Holdings Corp.	NYS	14.00	0.00	-4.27	15.38	12.13	28	0.00	0.00	13	13.72	1.02
Chubb Corp.	NYS	80.13	-2.74	3.55	85.25	68.63	860	1.96	2.45	12	48.40	1.66
CIGNA Corp.	NYS	77.63	-0.33	22.00	79.00	59.00	1077	3.04	3.92	8	80.98	0.96
CNA Financial Corp.	NYS	86.13	-0.87	32.76	86.88	60.00	56	0.00	0.00	20	73.83	1.17
EMC Insurance Group Inc.	NDQ	12.00	4.35	26.32	12.00	8.50	4	0.52	4.33	8	10.77	N.A.
Emphesys Financial Gr. Inc.	NYS	23.63	-9.59	-25.59	39.50	23.50	620	0.60	2.54	6	N.A.	N.A.
EXEL Ltd.	NYS	52.00	0.97	31.65	53.38	36.00	962	1.32	2.54	14	31.62	1.64
Fremont General Corp.	NYS	24.13	-2.05	3.21	26.13	17.16	241	0.80	3.32	7	22.90	1.05
Frontier Insurance Group	NYS	26.88	4.86	22.86	37.50	16.75	71	0.48	1.79	20	14.94	1.80
Gainsco Inc.	ASE	9.94	-1.90	20.45	11.00	7.25	250	0.04	0.40	13	3.79	2.62
General RE Corp.	NYS	133.88	-1.74	8.40	138.38	104.50	1127	1.96	1.46	15	57.17	2.34
Guaranty National Corp.	NYS	18.50	2.78	0.68	18.50	14.63	57	0.48	2.59	10	11.84	1.56
Harleysville Group	NDQ	25.00	1.01	3.09	26.50	20.00	74	0.68	2.72	10	20.18	1.24
Hartford Steam Boiler	NYS	44.38	-0.57	11.29	46.25	35.88	93	2.20	4.96	17	14.62	3.04
HCC Insurance Holdings	NDQ	26.63	0.47	26.79	27.38	18.50	0	0.00	0.00	16	10.75	2.48
ITT (Hartford Group)	NYS	117.50	0.32	32.58	119.50	77.00	1774	1.98	1.69	15	49.95	2.35
Lincoln National	NYS	43.75	-2.78	25.00	46.25	34.63	484	1.72	3.93	14	31.99	1.37
Markel Corp.	NDQ	55.75	-0.45	34.34	57.00	39.00	23	0.00	0.00	16	25.15	2.22
Mid Ocean Ltd.	NDQ	31.63	4.10	16.06	31.63	22.25	617	1.00	3.16	9	20.24	1.56
Mutual Risk Mgmt. Ltd.	NYS	33.50	0.00	27.62	36.38	21.13	192	0.32	0.96	18	9.11	3.68
NAC Re Corp.	NDQ	31.13	-1.19	-7.09	35.25	24.25	207	0.20	0.64	15	19.75	1.58
National Re Corp.	NYS	33.50	3.46	27.62	33.50	22.25	61	0.16	0.48	19	17.31	1.94
Navigators Group	NDQ	15.75	5.85	8.62	19.75	12.75	9	0.00	0.00	-20	10.21	1.54
Nobel Insurance Ltd.	NDQ	10.38	3.13	25.76	10.38	7.75	11	0.20	1.93	4	6.34	1.52
Ohio Casualty Corp.	NDQ	31.50	-0.19	11.50	34.25	27.00	344	1.52	4.83	11	24.58	1.28
Old Republic Int'l	NYS	26.13	0.48	22.94	26.38	18.88	247	0.52	1.99	10	24.50	1.06
Orion Capital Corp.	NYS	39.00	-2.50	10.64	40.25	28.13	64	0.80	2.05	9	25.36	1.51
Partner Re Holdings Ltd.	NDQ	26.13	5.00	25.90	26.13	18.50	1260	0.40	1.53	8	N.A.	N.A.
Penn-America Group Inc.	NDQ	9.50	3.37	28.81	9.75	6.50	62	0.12	1.26	11	6.21	1.53
Philadelphia Cons. Holding	NDQ	14.63	5.37	19.39	14.63	9.50	18	0.00	0.00	15	8.43	1.73
Phoenix RE Corp.	NDQ	23.50	0.00	-16.81	29.25	21.00	513	0.60	2.55	4	22.86	1.03
Provident Life	NYS	23.25	-1.61	6.90	29.88	20.50	457	0.72	3.10	10	27.09	0.86
Reliance Group Holdings	NYS	6.50	1.88	25.30	6.75	4.86	553	0.32	4.92	10	3.48	1.87
Reliastar Financial Corp.	NYS	38.25	-2.55	31.90	39.63	27.00	488	1.00	2.61	11	24.81	1.54
RLI Corp.	NYS	22.75	0.53	38.72	23.25	15.91	19	0.52	2.29	11	20.51	1.11
St. Paul Companies	NYS	49.25	-1.01	10.06	51.88	39.38	811	1.60	3.25	9	31.88	1.54
SAFECO Corp.	NDQ	57.44	-2.65	10.46	59.88	46.75	719	2.12	3.69	12	46.94	1.22
SCOR U.S. Corp.	NYS	9.00	-1.42	7.46	12.25	7.50	31	0.20	2.22	16	13.60	0.66
Seibels Bruce Group	NDQ	1.00	33.33	-60.00	3.50	0.75	33	0.00	0.00	-1	1.05	0.95
Selective Ins. Group	NDQ	33.00	0.00	30.69	33.50	23.25	137	1.12	3.39	11	23.36	1.41
Sphere Drake Holdings	NYS	15.38	0.82	10.81	16.50	10.75	20	0.16	1.04	8	13.15	1.17
TIG Holdings	NYS	23.00	-3.16	22.67	24.63	17.00	492	0.20	0.87	21	17.25	1.33
Titan Holdings, Inc.	NYS	12.13	6.55	24.36	12.50	7.84	230	0.24	1.98	10	9.31	1.30
Tokio Marine & Fire	NDQ	57.38	0.66	-5.56	65.63	49.88	25	0.44	0.77	-	57.72	0.99
Torchmark Corp.	NYS	37.75	-3.53	9.42	44.50	32.38	1186	1.12	2.97	10	17.49	2.16
Transatlantic Holdings	NYS	65.00	0.18	16.33	65.50	47.75	183	0.40	0.62	13	32.43	2.00
Transnational Re Corp.	NDQ	20.06	-0.93	-14.63	25.50	18.75	249	0.00	0.00	6	N.A.	N.A.
Travelers Corp.	NYS	43.75	-1.69	35.14	45.00	30.38	2762	0.80	1.83	11	24.26	1.80
Trenwick Group Inc.	NDQ	42.50	0.00	0.29	45.75	36.00	96	1.12	2.64	11	29.20	1.46
United Fire & Casualty	NDQ	29.25	3.98	5.72	29.81	26.25	4	0.80	2.74	9	28.96	1.01
Unitrin	NDQ	47.50	-4.52	10.47	51.50	38.50	109	2.00	4.21	15	38.64	1.23
UNUM Corp.	NYS	46.88	-2.10	24.17	50.00	35.13	560	1.06	2.26	24	27.78	1.69
US Facilities Corp.	NDQ	16.25	1.56	62.50	16.25	9.13	268	0.20	1.23	11	11.07	1.47
USF&G Corp.	NYS	16.25	-0.79	20.37	17.25	12.13	741	0.20	1.23	7	10.04	1.62
USLIFE Corp.	NYS	40.25	-2.14	15.41	41.50	30.88	156	1.32	3.28	10	40.82	0.99
Washington National	NYS	20.63	-0.02	8.55	22.88	17.75	87	1.08	5.24	8	23.61	0.87
Zenith National Ins.	NYS	21.38	-0.58	-6.04	27.38	19.38	21	1.00	4.68	11	17.54	1.22
Zurich Reinsurance Centr.	NYS	28.63	-1.29	-0.87	30.88	25.00	97	0.00	0.00	-39	22.26	1.29
INSURERS/REINSURERS	AVERAGE		0.4	15.1					2.3	11.4		
HEALTH MAINTENANCE ORGANIZATIONS												
FHP International	NDQ	23.00	-5.15	-10.68	31.00	19.50	3612	0.00	0.00	13	12.22	1.88
Humana Inc.	NYS	17.75	-8.41	-21.55	27.13	16.13	18256	0.00	0.00	15	6.04	2.94
Pacificare Health Sys.	NDQ	50.75	-11.74	-22.07	79.50	44.25	697	0.00	0.00	16	14.21	3.57
Safeguard Health Enter.	NDQ	11.00	4.76	18.92	13.75	8.25	18	0.00	0.00	73	6.16	1.79
Sierra Health Services	NYS	24.50	-6.67	-22.53	33.63	22.13	1217	0.00	0.00	14	6.04	4.06
United Healthcare Corp.	NYS	41.38	-3.78	-8.31	55.38	34.13	14887	0.03	0.07	24	6.57	6.30
U.S. Healthcare	NDQ	30.63	-9.26	-25.76	49.00	26.50	13233	1.00	3.27	12	5.04	6.08
Wellpoint Health Networks	NYS	28.25	-3.85	-3.00	39.00	24.25	1489	0.00	0.00	13	12.73	2.22
HMOs	AVERAGE		-5.5	-11.9					0.4	20		
ALL COMPANIES	AVERAGE		-1.6	3.0					2.4	14		

Top advancing issues: Seibels Bruce Group; Titan Holdings, Inc.; Allmerica Prop. & Casualty. Leading decliners: Pacificare Health Sys.; Emphesys Financial Gr. Inc.; U.S. Healthcare. Most active issue: Humana Inc. The BI Index fell 2.1%; the Dow Jones 30 Industrials declined 0.6%; the S&P 500 fell 0.9% and the NYSE Composite declined 0.8%.

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