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Updates

With $60 million distribution, Transit has paid more than spent

JEFFERSON CITY, Mo.—The state judge supervising the Transit Casualty Co. receivership has approved a $60.3 million distribution to Transit creditors, the fifth such payment since Transit collapsed in 1985.

The latest payments will bring the Transit estate's total distributions to creditors to $293.6 million, or 30% of approved claims by commercial policyholders and state guaranty funds. Transit continues to hold $428.9 million for long-tail claims, said Timothy Weissenberger, executive vp and chief financial officer.

See **Updates** *on next page*

1998 MIDYEAR MARKET REPORT

Buyers expand shopping lists

Interest in solutions for employment practices, Year 2000 risks

By MICHAEL BRADFORD and MEG FLETCHER

RISK MANAGERS REPORT

Risk managers, now well accustomed to the free fall of insurance premiums, are looking to pick up additional coverages while prices are right.

Buyers are particularly interested in employment practices liability insurance as they grow more aware of their exposure and the coverage becomes more widely available and affordable.

Apart from coverage concerns, risk managers have the millennium on their minds. They worry that not everyone is ready for the problems that the year 2000 could bring to computer systems (see story, page 28).

"There are computer chips everywhere," said Grant Johnson, risk manager at Hormel Foods Corp. in Austin, Minn. "There are a lot of unknowns."

More immediately pressing for many is the need for risk managers to cover the risks they do know about. During this midyear renewal period, employment practices liability insurance is high on many shopping lists.

"We're thinking about adding EPL," said Iris Owen, director of risk management at Pizza Inn Inc. in Dallas. "I don't think it's that high," she said of the coverage cost. "It's very reasonably priced."

"Risk managers think that (EPL) prices will continue to come down and forms will continue to

See **Buyers** *on page 26*

Insurers add service to their low prices

Midyear second-busiest season for most

By MARK A. HOFMANN and ROBERTO CENICEROS

INSURERS REPORT

Risk managers are looking for bargains from property/casualty insurers, and those with midyear renewals are getting them.

Rates for nearly all casualty lines, including workers compensation and specialized liability coverages, remain competitive, insurers report. Property insurance rates also are lower, driven in part by an absence of large catastrophes.

Risk managers increasingly are looking not only for low rates but also expanded coverage and enhanced services, and many insurance companies are scrambling to provide them.

Insurers say buyers at midyear also are looking for new risk financing options, such as multiyear and multiline programs, and also assistance with tough exposures, including Year 2000 computer problems.

For most insurers, the midyear renewals season remain the second-busiest of the year. For most, about a quarter of their accounts renew June 30 or July 1, though some companies report exceptions to this rule.

Dennis Kane, president-special risks facilities for CIGNA Property & Casualty in Philadelphia, said about 60% of his division's book of business renews during May, June and July.

CNA Insurance Cos., by con-

See **Insurers** *on page 16*

'Never have buyers had it better'

Brokers' clients getting better coverage terms from markets

By SALLY ROBERTS and MICHAEL PRINCE

BROKERS REPORT

Life doesn't get much better for risk managers than during this renewal period, according to brokerage executives.

The abundance of capacity in the marketplace continues to depress prices in all lines of insurance, leaving insurers and brokers battling to keep the business of increasingly sophisticated buyers.

Creative approaches to meeting buyers' needs and customized products and services are the name of the game this renewal period, say brokers who increasingly recognize that just offering traditional insurance placement services will sound their death knell in this soft market.

"From the buyer's perspective, it hasn't been much better than this," noted Bob Peretti, managing director and head of global broking casualty for J&H Marsh & McLennan Inc. in New York.

Patrick G. Ryan, chairman and chief executive officer of Aon Group Inc. in Chicago, agrees. "Never have buyers had it better," he said.

Not only are prices at "historical lows" and the industry is developing more creative solutions but clients also are "buying from much better-capitalized insurers," said Mr. Ryan, referring to recent consolidations.

"The last time we had very, very low prices, they were buying from a lot of companies that were in financial trouble," he noted. Today, clients are getting wonderful terms and conditions "from ever better-capitalized companies."

Overall, brokers say prices for all lines and for all geographic regions are dropping in the neighborhood of 10% to 30% this renewal period.

While it is not a free fall, "it's about as close as it can get," said Joel Cavaness, president of International Special Risks Services Inc. and Risk Placement

See **Brokers** *on page 12*

Health plan rates heading upward

HMOs, other plans raising prices

By JERRY GEISEL and ROBERT KAZEL

HEALTH CARE REPORT

Health maintenance organizations are hitting employers with the first significant rate increases since the early 1990s, with more bad news just around the corner.

"Definitely, the trend is upward," said Ed Baird, senior vp for sales and marketing at Prudential HealthCare in Roseland, N.J.

Prudential HealthCare reports rate increases averaging 6% to 9% for managed care plans with July 1 renewals, compared with rate increases ranging from 4% to 6% for the first half of this year.

While HMO rates generally climbed 3% to 5% this year for employers with Jan. 1 renewals, the range of rate hikes for 1999 will be about double that, with rates generally expected to climb 4% to 10%, HMO executives and others say.

Rates also will be increasing for other types of health care plans. Point-of-service plan rates generally will rise one or two percentage points more than HMOs increase, while rates for preferred

See **Health** *on page 36*

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NEWSPAPER

REINSURERS REPORT — BEGINS ON PAGE 20

LONDON REPORT — BEGINS ON PAGE 23

SURPLUS REPORT — BEGINS ON PAGE 32

Updates

Transit distributes $60 million

Continued from previous page

The $60.3 million distribution includes $45.1 million to commercial policyholders, which previously had collected 25% of their approved claims; and $12.2 million to guaranty funds, which previously had collected 28% of their approved claims.

Cole County Circuit Judge Byron L. Kinder also approved payments totaling $3 million to numerous individual claimants, who now will have collected 50% on their claims.

With this distribution, the Transit receivership will have paid more to creditors than it has spent administering the estate. Transit's relatively high expenses—$251.8 million from inception to March 31, including large deferred compensation awards to top receivership officials—have generated criticism from Missouri insurance regulators and others (*BI*, May 4).

Partner Re boosts U.S. unit

NEW YORK—Partner Re Ltd. is injecting an extra $100 million into its U.S. subsidiary and revamping its organization.

SAFR Reinsurance Corp. of the U.S. has been renamed Partner Re U.S., Scott Moore is now its chief executive officer, and the New York-based reinsurer will establish a division for securitization products.

Partner Re has only a small stake in the U.S. multiline reinsurance market and, by increasing the capital of its U.S. unit to about $230 million, it should be able to expand significantly, said Herbert N. Haag, president and chief executive officer of Bermuda-based Partner Re.

Other than its core catastrophe reinsurance business, Partner Re has about $50 million in premium volume in the United States. So even if the current soft market only allows Partner Re to expand its multiline business slightly in terms of market share, it could be a significant increase in premium volume for the reinsurer, Mr. Haag said.

"The companies that buy cat coverage from us want Partner Re to get involved in other business as well because we are a $2 billion group, so we should be able to attract some good quality business," he said.

The changes will move Partner Re into more direct competition with its largest shareholder, Swiss Reinsurance Co., which also is trying to expand in the United States. However, Partner Re U.S. likely will work with brokers, whereas Swiss Re is largely a direct reinsurer, he said.

Mr. Moore formerly was chief financial officer of Partner Re in Bermuda. He takes over as CEO of the U.S. operations from Jean-Pierre Fillebeen, who will remain with the reinsurer as executive vp and work on traditional reinsurance business.

John Adimari has joined Partner Re U.S. as senior vp and chief financial officer. He formerly was a vp at NAC Re Corp. Karen O'Connor Rubsam will succeed Mr. Moore as group CFO in Bermuda. She formerly was senior vp-finance.

Rating agency A.M. Best Co. last week upgraded the U.S. SAFR unit to A from A-, reflecting Partner Re's capital infusion, and affirmed Partner Re's A+ rating.

Product reform support slips

WASHINGTON—Business support for a limited product liability reform bill has begun to splinter as the Senate prepares to debate and possibly vote on the measure this week.

The Arlington, Va.-based Chemical Manufacturers Assn. announced it would "vigorously oppose" the measure, which President Clinton said he would sign provided that it remained unchanged from the compromise worked out between the White House and Sens. Slade Gorton, R-Wash., and John D. Rockefeller IV, D-W.Va. (*BI*, June 29; June 15).

In a statement late last month, the CMA said the bill could expose manufacturers to more litigation by supposedly shifting to manufacturers the burden of informing a customer's employees of a product's potential risks and hazards. Supporters of the bill have dismissed the CMA's position as a misreading of the language.

Consumer advocate Ralph Nader, meanwhile, an outspoken opponent of product liability reform, said opposition from the CMA and other trade groups could prove critical in determining whether the bill's supporters in the Senate can gather the 60 votes necessary to invoke cloture, or an end to debate on the measure, paving the way for a vote. The Senate is expected to take up the measure early this week, with a cloture vote possible as early as Wednesday.

Mr. Nader, founder of consumer activist group Public Citizen, said the bill would harm consumers, "subvert" the civil justice system and allow corporations to "escape financial responsibility for the harm and damage they cause innocent citizens."

Mr. Nader said opponents have about 35 sure votes against cloture. Even if the bill won Senate approval this week, however, it would need to pass in the House and be signed by the president.

Although the bill would give much of its liability relief to very small businesses, it also would set a uniform standard for awarding punitive damages, create a defense for manufacturers if plaintiffs misused or altered a product or were under the influence of alcohol or drugs at the time of their injuries, and set a uniform 18-year statute of repose for workplace goods under most circumstances.

Liberty Mutual acquisition

LAKELAND, Fla.—Liberty Mutual Group is acquiring Summit Holding Southeast Inc., a Lakeland, Fla.-based workers compensation insurer.

See **Updates** *on page 54*

ASA gains independence

Benefit consulting firm spun off from AT&T Corp.

By JERRY GEISEL

SOMERSET, N.J.—ASA Inc., one of the nation's fastest-growing benefit consultants, could become an even more formidable competitor after its spinoff by parent AT&T Corp.

Last week, ASA ended its 13-year history as an AT&T subsidiary through the purchase of the firm by 45 management employees. Terms were not disclosed. Shares also will be distributed next month to all other ASA employees.



Mr. Gulotta

Launched July 1, 1985, with $25,000 in seed money from AT&T, ASA has racked up a growth rate that it says has been faster than any of the major benefit consultants.

During its first full year of operations, ASA, which then had just 17 employees, generated $3 million in consulting revenues. Last year, ASA produced $76 million in revenues and expects to bring in more than $100 million in revenues this year.

With its new independence from AT&T, ASA executives believe it will be better positioned to win business from communications and other firms that compete with its former parent.

See **ASA** *on page 6*

Texas employers question need for state probe of HMO practices

By MICHAEL BRADFORD

AUSTIN, Texas—An investigation into the operations of Texas health maintenance organizations isn't drawing much support from employers.

HMOs are being asked by Texas Attorney General Dan Morales for information that will aid his office in determining whether the plans are running afoul of laws that regulate HMOs.

The investigation is "more HMO bashing, basically," said Marianne Fazen, executive director of the Dallas/Fort Worth Business Group on Health.

Larry Hall, executive director of the Houston Area Health Care Coalition, said: "We have pushed and pushed for a marketplace in health care. In my opinion, that's what we have. Let it work itself out without this interference."

Knowledgeable benefit managers "know exactly what they are buying," he emphasized, and they listen to employees who let them know how HMOs are performing.

"If employees come around loud enough, there will be solutions" to any problems they point out related to HMOs, Mr. Hall said.

The attorney general's office is saying little about its investigation. "We've asked for informa-

See **Texas** *on page 6*

NAIC eyes Y2K exposures

Regulators urged to survey insurers' preparedness

By MEG FLETCHER



BOSTON—State insurance regulators are involved in a variety of regulatory and educational efforts to help policyholders and insurers exterminate the "millennium bug."

With 18 months until the problem is triggered, several subgroups of the National Assn. of Insurance Commissioners discussed ways to assess and avert the impact of inadequately programmed computer chips failing to appropriately reflect the year 2000.

"We see it as a critically important issue," NAIC President Glenn Pomeroy of North Dakota said during the association's meeting in Boston last month.

During a special meeting, a Massachusetts Insurance Division regulator expressed his department's concerns that business groups have not had enough opportunity to evaluate year 2000 policy exclusions proposed by the Insurance Services Office Inc.

Business groups should be solicited for comment,

See **NAIC** *on page 55*

Vesta restates earnings

Insurer revises accounting methods, names new CFO

By DOUGLAS McLEOD

BIRMINGHAM, Ala.—Vesta Insurance Group Inc. will restate its financial results for the last five years, reducing earnings by a total of $72.4 million to correct accounting problems that triggered a massive sell-off of its stock last month.

Vesta announced last week that it will take a $13.6 million aftertax hit to earnings for the fourth quarter of 1997 and first quarter of 1998 after finding that it had overestimated premium income and improperly reduced reserves.

Of the $13.6 million, about $6.1 million represents a reinstatement of reserves that Vesta had earlier taken down, while most of the remaining $7.5 million relates to an overstatement of premium income, the company said.

At the same time, Vesta said it is revising its method of accounting for assumed reinsurance business, including actuarial assumptions it used to estimate premium income and losses.

As a result, the insurance

See **Vesta** *on page 49*

Inside

- CalPERS has made a sound move in deciding to offer more HMOs for members to choose from, this week's editorial says. **PAGE 8**
- The adequacy of Equitas Ltd.'s reserves it is not yet known for Lloyd's policyholders and investors, a lawyer says. **PAGE 45**
- A doctor's survey shows employees in POS plans have complaints about them. **PAGE 50**
- Employers must keep the rights of employees in mind in formulating discipline policies, a consultant says. **PAGE 52**

Departments

Advertiser Index 40

Classifieds 50
Commentary 53
Information Resources 40
Insurance Services Guide 48
International 45
Opinions 8
Perspective 31
Reader Reply Service 40

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Technology aiding preparedness

Growth of private weather services also brings risks

By MARK A. HOFMANN

WASHINGTON—Advances in communication and meteorological technology will lead to increasingly accurate and more timely information on weather disasters in the near future, experts say.

The mere existence of real-time storm information, however, doesn't assure public safety, they add.

To make a difference, that improved information must be disseminated widely, and to the right people, which is the challenge for emergency preparedness and response personnel, according to speakers at a symposium on real-time monitoring and warning for natural hazards in Washington last week.

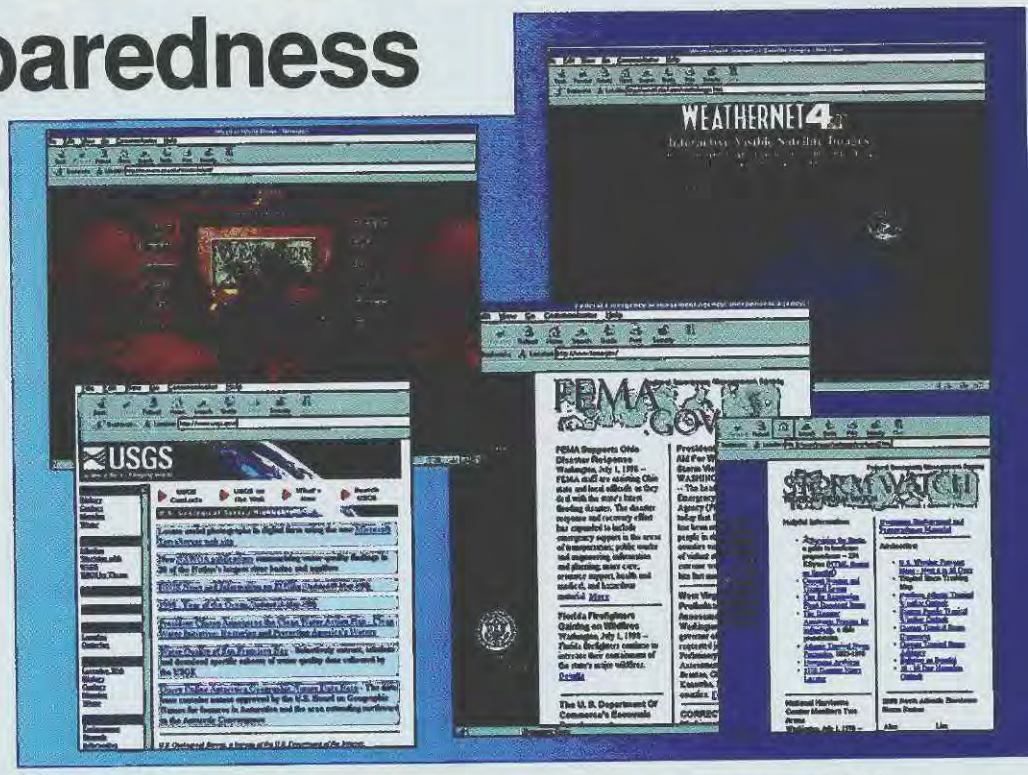
New technology also means an increasing number of private companies providing weather information. Those companies may face new liability exposures for providing information in an emergency, one speaker noted.

The symposium was sponsored by the Boston-based, insurer-backed Institute for Business & Home Safety and by the Subcommittee on Natural Disaster Reduction, a group of 19 government agencies with an interest in catastrophe warning and mitigation.

The challenge facing weather forecasters and others responsible for getting disaster warnings out is "getting the maximum amount of information to the maximum amount of people," said Bob Ryan, chief meteorologist for WRC-TV in Washington and a former president of the American Meteorological Society.

Mr. Ryan noted that only two decades ago, satellite storm tracking and other monitoring techniques now taken for granted were new and crude technologies. Today, newer and more targeted communications technologies are becoming available to pro-

See **Weather** *on page 53*



Report blasts audits of California comp

By JOANNE WOJCIK

The system created to measure the effectiveness of workers compensation claims-handling in California is ineffective and must be fixed, a new report indicates.

The workers comp auditing program, created in 1991 by statutory reforms, fails to reliably measure systemwide claims-handling performance, gauge the level of unpaid or overpaid benefits or produce meaningful data that can be used to improve the system, the report states.

The report, released June 25 in San Diego by the Commission on Health and Safety and Workers Compensation, a broad-based governmental advisory body appointed to recommend improvements in the workers comp system, traces many claims administration problems to the "complex and cumbersome" structure of the state workers comp system and calls for a complete overhaul of the audit program.

Most notably, the report cites the complexity of mandatory workers comp benefit notices sent to injured workers, which it says "are not readily comprehensible and result in confusion to injured workers and all parties," as well as what it calls an "arcane" system of calculating benefits, which "invites confusion and error."

Legislation to revamp the audit program was introduced earlier this year. But Senate Industrial Relations Committee Chairwoman Hilda L. Solis, D-El Monte, removed the bill from consideration on July 1 in response to the commission's report.

"We've been getting beat over the head here in Sacramento over the audit process, but the commission's report proves that it's a flawed way to measure insurer claims performance," said Doug Widtfeldt, vp of the Assn. of California Insurance Cos., a property/casualty insurer trade organization in Sacramento.

"We thought it was a very good description of the problems that are out there within the system and did a terrific job of outlining the key deficits and limitations of the audit process," said a spokesman for the San Francisco-based California Workers Compensation Institute, a research organization funded mainly by insurers.

"We're not getting (sufficient appropriate) information from the current audit process, although this report clearly indicates that you could," the

See **Report** *on page 54*

Businesses in the dark

Outages don't switch on insurance coverage

By GEORG SZALAI

Most businesses affected by the power shortages that hit the Midwest and parts of New England late last month will probably not be covered for losses, experts say.

Reductions in businesses' production time were likely not long enough to trigger coverage under most business interruption policies.

Spokespeople for utilities in the Midwest and Northeast said the problems on June 25 and June 26 were created by a combination of factors. The hot weather in the Eastern half of the United States increased power demand in many states, and maintenance work and storm damage to power plants and transmission lines in some Midwestern states reduced the availability of power.

"It was a unique and unprecedented circumstance," said a spokeswoman for Commonwealth Edison in Chicago.

Spokespeople for Wisconsin Electric Power in Milwaukee, Cinergy in Cincinnati and American Electric Power in Columbus, Ohio, said they had to buy additional power on the wholesale market to manage. The high demand lifted prices.

"On Thursday, we paid $20 million for energy," the ComEd spokeswoman said. "Normally, we would pay $200,000."

The utilities coped with the situation partly through "interruptable contracts" that many large industrial customers have signed. These contracts allow a utility to turn off power from time to time in exchange for rate cuts for the customer of up to two-thirds off the normal rate.

The utilities also issued news releases and public service announcements asking the public to reduce energy consumption.

Power was in such short supply that many businesses, especially in the steel, auto and chemical industry, received phone calls from their utility asking them to cancel shifts or cut their operations to their basic needs.

Riverdale, Ill.-based Acme Metals Inc. had to shut down for six hours on

See **Power** *on page 54*

New study details possible 401(k) fees

By JERRY GEISEL

WASHINGTON—Employers and employees now have a new source of information about the fees charged by 401(k) service providers and investment funds.

Last week, the Department of Labor released a lengthy study—directed at both employers and employees—detailing fees associated with 401(k) retirement savings plans. It also released a shorter paper—geared to plan participants—explaining the general issue of 401(k) fees.

By providing both employers and employees with more information, "They will have more information to make the best decisions possible," said Olena Berg, former assistant secretary of labor, who left the Labor Department last month.

"It is very difficult for participants to know what they pay," Ms. Berg said, adding that the department wants to shine a searchlight on any hidden fees associated with 401(k) plans.

Some benefit experts welcome the disclosure of 401(k) fees.

"The more information there is out there, the better off everyone will be," said Frederick Rumack, director of taxes and legal services at Buck Consultants Inc. in New York.

Others, though, question the Labor Department effort. They are skeptical that employees will read either document, especially the 72-page study on 401(k) fees and charges, which is available only through the Labor Department's Internet site.

"I'm relatively Internet-savvy, but I'm having a hard time figuring out where I would look to" get the documents, said Margaret-Ann Cole, a principal at Fort Lee, N.J.-based PwC Kwasha, the benefit consulting unit of Price Waterhouse Coopers.

The study of 401(k) plan-related expenses provides information on a wide range of expenses associated with the plans.

For example, the study explains that recordkeeping is the largest component of recurring administrative expenses. The study says recordkeeping typically comprises 14% of total expenses for a 401(k) plan with $10 million in assets.

However, recordkeepers may discount

See **Fees** *on page 53*

CalPERS to widen choice of HMOs

By JUDY GREENWALD

SACRAMENTO, Calif.—A plan by the California Public Employees' Retirement System to increase competition and hold down rates by contracting with additional health maintenance organizations is a good idea that others may follow, say employers and consultants.

It may be difficult, however, for many other employers to use CalPERS' "managed competition" strategy. The leverage CalPERS has because of its size and geographic concentration in one state, as well as the availability in California of multiple HMO choices to a degree not found elsewhere, make its situation relatively unique.

CalPERS, the nation's second-largest health care buyer behind only the federal government, said last week that as of the Year 2000 it plans to lift a decade-long moratorium on the HMO choices it offers its members to increase competition, with the goal of holding down premium costs and improving the quality and availability of health care.

CalPERS now offers members 10 HMOs, though 80% of its members are enrolled in just three plans:

- Health Net, operated by Woodland Hills, Calif.-based Foundation Health Systems Inc.
- Kaiser Permanente, based in Oakland, Calif.
- PacifiCare Health Systems Inc., based in Santa Ana, Calif.

At the time it introduced its moratorium, CalPERS had offered its members a choice of more than 30 HMOs, but it found that number to be unwieldy and confusing to members. That total has since been whittled down, primarily because of mergers and acquisitions.

CalPERS last month reached a settlement in an HMO rate dispute with Kaiser Permanente, ultimately agreeing to a 10.75% rate hike for next year in exchange for reviews and audits of the HMO (*BI*, June 15).

"It was not Kaiser specifically that caused us to lift the HMO moratorium. It was the concern about stabilizing health care costs, which are rising across the board," said a Kaiser spokesman.

See **CalPERS** *on next page*

CalPERS

Continued from previous page

"Traditionally, the idea of using competition helps stabilize health care rates" and is a policy CalPERS has successfully followed in the past, the spokesman said.

He noted this was an idea that had been promoted by a group of health care policymakers, including Dr. Alain Enthoven and the Jackson Hole Group. The spokesman said CalPERS also is still exploring the issue of direct contracting with medical providers (*BI*, April 6).

Employers say they believe CalPERS' new strategy is a sound approach.

Assuming there is not a lot of crossover of providers and HMOs, "I would argue for offering more (HMOs) and trying to set up a little competition between them," said Fred Hamacher, vp-compensation and benefits for Minneapolis-based Dayton-Hudson Corp. Mr. Hamacher noted that through a Twin Cities-area employer coalition, Dayton-Hudson and other area employers use 18 health care systems, with one plan design.

Charles P. Slavin, director of the division of state group insurance for the state of Florida in Tallahassee, said for a couple of years there has been a trend for large employers, such as state governments, to decrease the number of HMOs with which they do business.

Now, he said, the pendulum may be swinging in the other direction.

The state of Florida, for example, which now contracts with 15 HMOs, is rethinking its own strategy.

The current policy is to forbid additional HMOs to be offered in a county if the group insurance division thinks there is adequate coverage, Mr. Slavin said.

But now, "I wouldn't be at all surprised to see us emerge with a policy that basically says in market areas that already have a high level of HMO service, if another HMO wants to enter the area and they're offering rates or service that could have a competitive effect in the area, we'll let them in," he said.

This is a strategy known as the "shark in the tank," Mr Slavin added. If there are many plans in a market that are neither particularly effective nor performing well, the "shark"—an aggressive, efficient plan—is thrown into the mix to weed out the poor performers.

"I think other employers are likely to follow" CalPERS' move, said Wanda Jones, president of San Francisco-based New Century Health Institute and a health care analyst.

"You know you have to keep refreshing the gene pool, so opening it up keeps everyone alert, and it keeps everyone reminded the buyers are in charge, not the payers," Ms. Jones observed.

In recent years, with flat or declining HMO rates, there had been no incentive to "shuffle the deck," observed Jeff Klonoff, a consultant in Hewitt Associates L.L.C.'s San Francisco office. But more employers now are likely to consider this approach for the year 2000, as they see what 1999 rate increases will be during negotiations over the next three or four months, he said.

'CalPERS is such a different animal from the typical employer-sponsored plan,' says John Erb. 'Just the sheer size of the group sets it apart from everybody else.'

"I think it's a direction that employers should definitely look at doing because. . .managed competition, if it's implemented, can have an impact on price," said Bob Burnett, a principal in Buck Consultants Inc.'s San Francisco office. He said that while administrative costs have been a deterrent to offering multiple HMOs in the past, the use of technology, including online benefit enrollment systems, makes that less of an issue today.

But some consultants do not expect other employers to follow CalPERS' lead.

"I would say most employers that I deal with are not adding options unless existing options are performing very poorly, and they're going to put in a competitive plan. . .with the ultimate goal of getting back to a more manageable number of plans," said Richard B. Sinni, group and health care practice leader for Watson Wyatt Worldwide in New York.

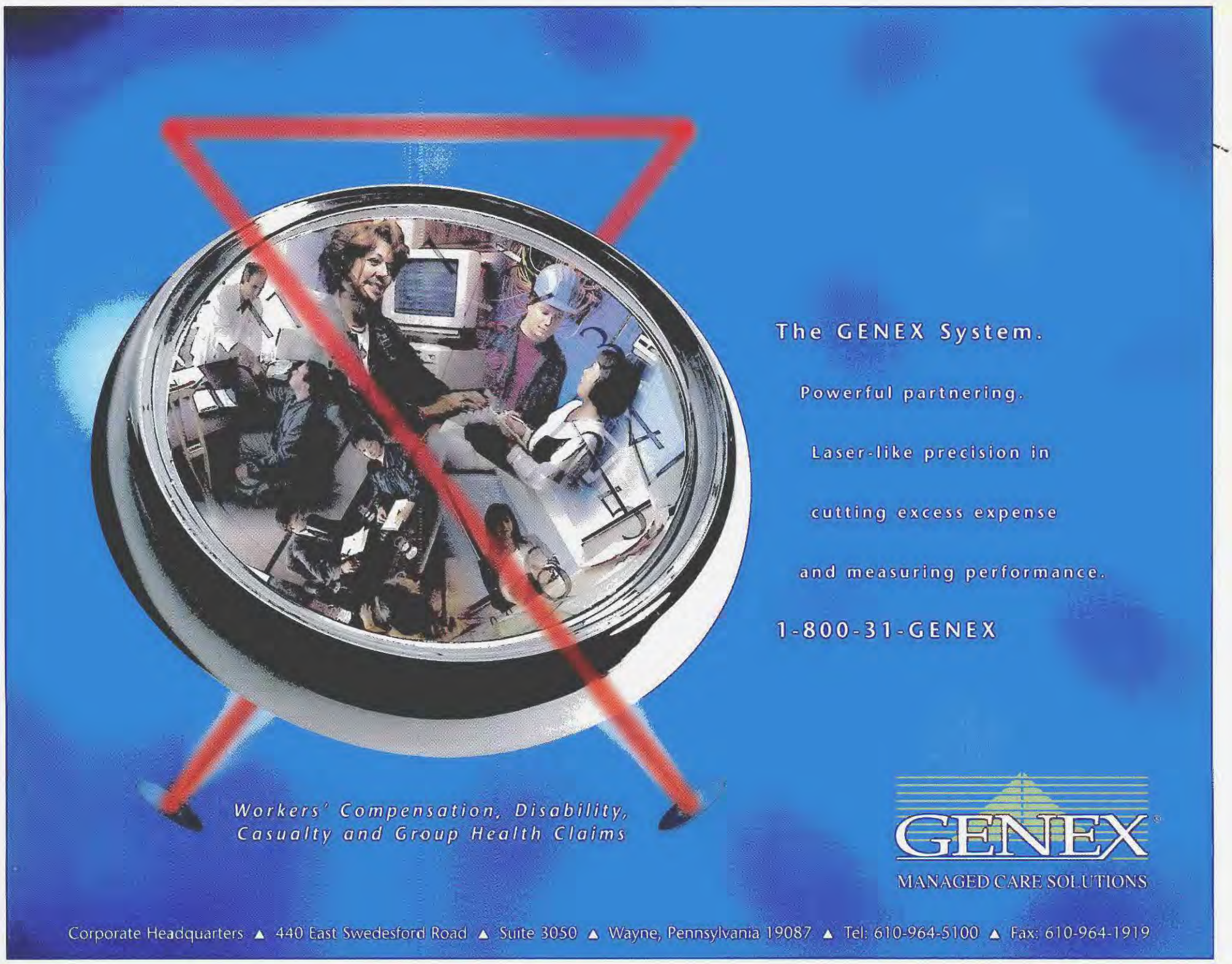
Blaine Bos, a consultant with William M. Mercer Inc. in Chicago, said, "I think the trend is away from more choice and looking at offering the best two or three plans in the market as opposed to increasing the number of HMOs available."

Mr. Bos said that according to the 1997 Mercer/Foster Higgins National Survey of Employer Sponsored Health Plans, the national average of five HMOs per employer and two per location has not deviated during the past three years (*BI*, Jan. 19). The 10 largest states, the health care purchasers probably most comparable to CalPERS, offer an average of 16 HMOs, with an average of five at any one location.

"CalPERS is such a different animal from the typical employer-sponsored plan," said John Erb, area vp for Gallagher Benefit Services in Boca Raton, Fla. "Just the sheer size of the group sets it apart from everybody else," said Mr. Erb, who added he does not expect employers to follow CalPERS' lead.

"We're not nearly as large as CalPERS," said Michael Pikelny, benefits consultant and corporate actuary for Chicago-based Hartmarx Corp. Because the company has fewer than 2,000 people scattered in about 10 states, "We don't have clout with any one HMO," he said.

Ideally, HartMarx would like to use just one or two national HMOs that feature identical benefits and premiums across its population base, said Mr. Pikelny. "But I've found that something like that doesn't exist." BI



ASA

Continued from page 2

Being an AT&T subsidiary at times kept ASA out of companies that compete with AT&T.

ASA Chief Executive Officer and President Michael J. Gulotta noted that some companies said, "Why should I support a subsidiary of a competitor?"

"We had roadblocks to gaining business. We will be even more aggressive and capable of winning business because we no longer have that roadblock," Mr. Gulotta said.

Becoming independent also should end any perceptions—which Mr. Gulotta says were incorrect—that AT&T had a priority on ASA resources.

While ASA now is independent of AT&T, the telecommunications giant remains what Mr. Gulotta describes as a "near and dear client."

ASA derives about one-third of its business from AT&T and does more work for AT&T, such as defined benefit plan administration, than does any other benefit consultant.

While AT&T remains a key client, ASA also is a consultant to such other major employers as Lucent Technologies, PepsiCo Inc., Prudential Insurance Co. of America, Puget Sound Energy Inc., Shell Oil Co. and W.R. Grace & Co.

One of those clients, Pepsi, describes as "fantastic" the work ASA did last year in consulting with Pepsi on the employee benefit plan implications of Pepsi's spinning off its restaurant business.

"We are a demanding client. We expect people to be available and accessible. Regardless of the hour, they were available and were a font of information in all kinds of different areas. They were fantastic," said Maria Renna, Pepsi's vp and senior counsel in Purchase, N.Y.

ASA is especially known for defined benefit plan administration and actuarial and retiree health care consulting work. Lately, its benefit communication consulting business has boomed. Revenues from that segment this year could hit $12 million, up from $2 million in 1995.

It has stayed out of the defined contribution plan administration, a line of business characterized by fierce competition and low margins. It does intend to expand its compensation consulting business.

AT&T sold ASA as part of its business strategy to concentrate on core business, an AT&T spokeswoman said.

"We don't have to own them to benefit from their services," the spokeswoman said.

Somerset, N.J.-based ASA has about 400 employees and branch offices in seven states, as well as in the District of Columbia and Toronto. BI

Texas

Continued from page 2

tion from certain HMOs," a spokesman for the attorney general said. "We're not disclosing who they are or the nature of the investigation except to say it is in regard to how HMOs provide health care or affect the health care of citizens in Texas."

The spokesman for the attorney general said he has "no idea" how long the investigation might take.

It is unclear how many HMOs are being investigated, but two confirmed they have been asked by the attorney general to provide information.

PacifiCare of Texas is meeting with the attorney general's office to provide the requested information, a spokeswoman for Santa Ana, Calif.-based PacifiCare Health Systems Inc. said. The Texas plan has 197,000 members. Officials at the plan are unsure how the information will be used, she said.

The spokeswoman said it is unclear whether the attorney general is investigating all HMOs or targeting ones about which members have complained.

"We think that overall we are in compliance with federal and state regulations," she noted.

Prudential HealthCare, a unit of Prudential Insurance Co. of America in Newark, N.J., with about 1 million members in Texas, also has been contacted and is working on providing information sought by the attorney general, a spokeswoman confirmed.

Separately, Harris Methodist Health Plan, an Arlington, Texas-based HMO, is working on an agreement with the Texas Department of Insurance that could result in the plan reimbursing millions of dollars in fines to Texas doctors. The physicians were penalized for exceeding prescription cost limits set by the plan.

While it is unclear exactly what information the attorney general is seeking, issues such as denial of care or arrangements like the Harris Methodist limits on prescriptions are not ones employers are vocal about, Ms. Fazen said.

"My impression is that employers are not complaining about that, nor are their employees," she said. "If there were all the problems that are touted in the press—like denial of care—HMOs wouldn't be in business."

George Crowling, regional health care manager at GTE Corp. in Irving, Texas, said, "I don't think I have ever seen a denial of care on an HMO's part that I thought was not warranted."

"If there is anything systematic that HMOs are doing" in terms of denying care or using illegal financial incentives to force physicians to keep costs down, he said, he is unaware of it.

Ms. Fazen and Mr. Hall point out that employers handle quality-of-care issues directly with managed care plans if those concerns arise. They say employers are in touch with employees who let them know when such issues need to be addressed.

Ms. Fazen said employers are more concerned about issues such as government intrusion into benefit design and efforts to erode the Employee Retirement Income Security Act.

Marcia MacLeod, manager of benefits development at Electronic Data Systems Corp. in Plano, Texas, said, "It seems pretty popular to beat up on managed care these days."

"We work real closely with all our HMOs," she said, and when concerns arise, "we talk directly with them."

EDS solicits employee feedback to make sure quality of care is adequate, Ms. MacLeod said, and employees have indicated they are satisfied with the plans' service.

Texas last year passed legislation allowing HMO participants to sue their plans for malpractice (*BI*, May 19, 1997).

Meanwhile, Harris Methodist is close to finalizing an agreement with the Texas Department of Insurance that will determine how much the health plan will reimburse physicians it penalized for exceeding limits on prescriptions.

Neither the plan nor the Insurance Department would release details of the agreement, but a spokeswoman for Harris Methodist confirmed that reimbursements could run as high as $4 million.

She also said negotiations are continuing on whether the plan should pay an $800,000 penalty to the state that Insurance Commissioner Elton Bomer is considering. The fine would be in addition to the physician reimbursements.

The plan is facing lawsuits filed in state court by physicians and patients regarding its policies on prescriptions. BI



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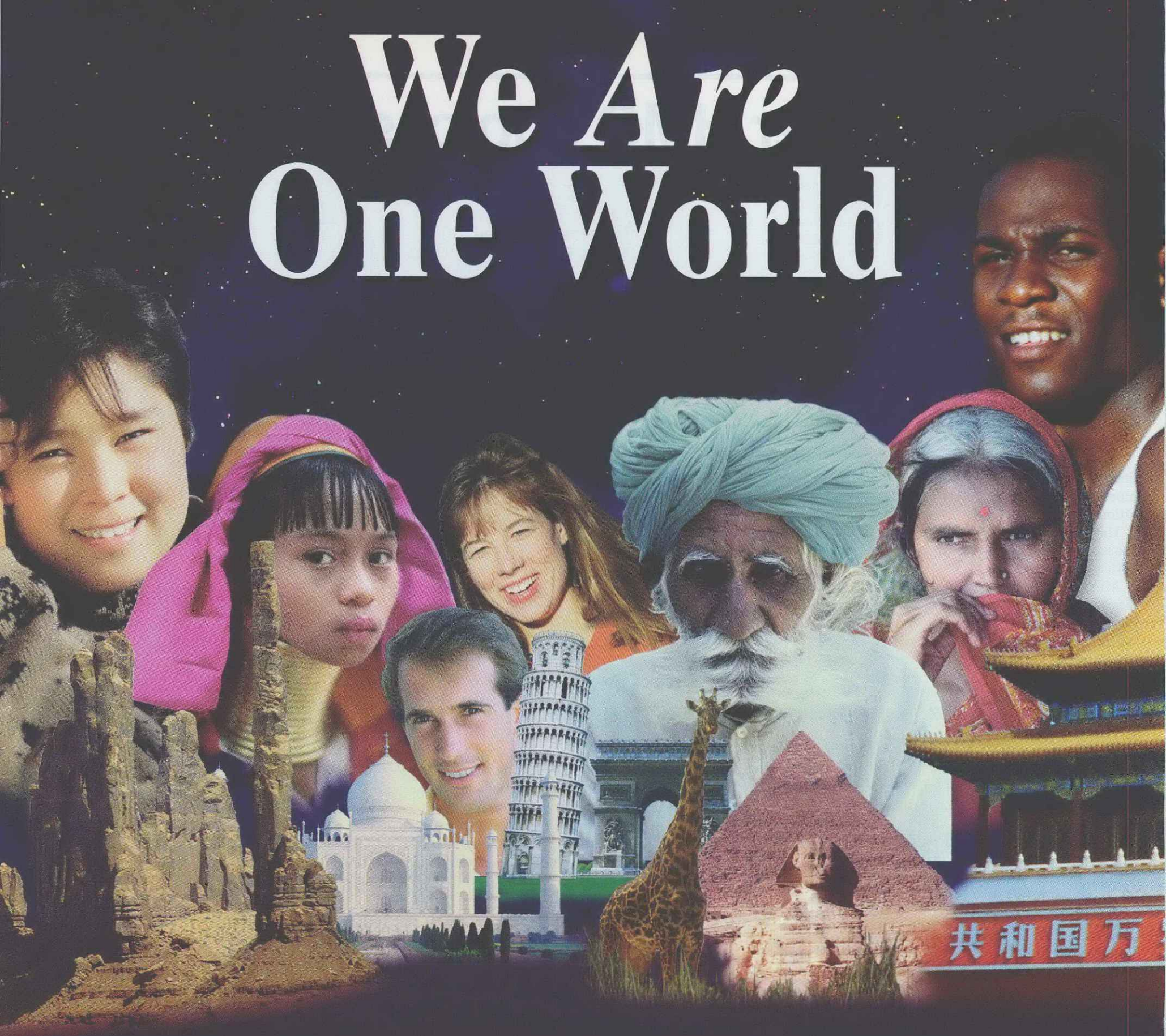
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Producer pleads guilty in defraud conspiracy

LOS ANGELES—John D. Nordstrom, a San Diego-area insurance producer, has pleaded guilty to a charge of conspiring to defraud tens of thousands of policyholders using a string of sham offshore insurers in the early 1990s.

Mr. Nordstrom was an owner of International Insurance Underwriters of Washington State Inc., a Lynnwood, Wash.-based managing general agent for several bogus insurers set up by the late swindler Alan Teale and others. Mr. Nordstrom also was the majority owner of Toma Surplus Lines Insurance Brokers Inc., a Marina del Rey, Calif., brokerage that produced business for the insurers and that was shut down by the California Insurance Department in 1993. The department also issued a cease and desist order against IIU in 1993.

For The Record

Federal prosecutors charged that Mr. Nordstrom used IIU to generate millions of dollars of premiums and diverted "substantial portions" of those premiums for his own use and to benefit family, friends and affiliates.

Mr. Nordstrom pleaded guilty last month in federal court in Los Angeles to one count of conspiracy. He faces a maximum of five years in prison and is scheduled to be sentenced Sept. 8.

After Toma collapsed, Mr. Nordstrom went on to operate Specialty Insurance Brokers, a San Diego company that managed an auto insurance program for Citation Insurance Co. The California Insurance Department revoked Specialty's license in 1996, after finding it had failed to remit about $1 million in premiums to Citation.

Mr. Nordstrom is the fourth former IIU official to plead guilty to federal charges.

Court reverses default judgment

SANTA ANA, Calif.—Truck Insurance Exchange doesn't have to pay a $57.8 million bad-faith default judgment, because the insurer never received adequate notice of its potential liability, a California appellate court has ruled.

The 4th District Court of Appeal ruled last month that the insurer's due process rights were violated because it was not notified that a default judgment based on refusing to turn over documents could expose it to tens of millions of dollars in punitive damages.

"It is clear. . .that a plaintiff seeking punitive damages by default must provide the defendant with notice" before deciding to seek punitive damages through a default judgment against the defendant, wrote Justice Edward J. Wallin in *Surgin Surgical Instrumentation Inc. vs. Truck Insurance Exchange*.

"Since Truck was deprived of its due process rights to notice. . .the only way to adequately remedy that loss is to return this matter to the discovery phase of the proceedings," Justice Wallin wrote on behalf of the unanimous three-judge panel.

The case stemmed from a 1989 medical device patent dispute between Tustin, Calif.-based Surgin and Alcon Surgical Inc. Although Surgin had comprehensive general liability coverage from Truck, the Farmers Insurance Group affiliate for months refused to confirm or deny coverage. Surgin eventually settled with Alcon and then sued Truck in 1991 for bad faith. But during the course of the lawsuit, Truck allegedly refused to turn over documents despite a court order to do so.

Finding Truck guilty of "flagrant discovery abuses," Orange County Superior Court Judge C. Robert Jameson in 1993 awarded Surgin $57,214,379—about 100 times the $574,284.79 awarded in compensatory damages.

Truck appealed, contending the award should be reversed because Surgin failed to provide notice of the amount it was seeking in punitive damages prior to obtaining the default judgment.

The appeal court agreed, reversing the judgment and directing the trial court to impose a "reasonable monetary sanction" for Truck's previous discovery abuse.

YMCA wins ruling on lifeguards

SAN JOSE, Calif.—Jacuzzis do not require lifeguards, says a state appellate court in a wrongful death suit.

The case involved a 30-year-old man, Stephan Andres, who had a history of seizures and was found face down in a Mountain View, Calif., YMCA spa in 1992 after he apparently accidentally drowned after a seizure.

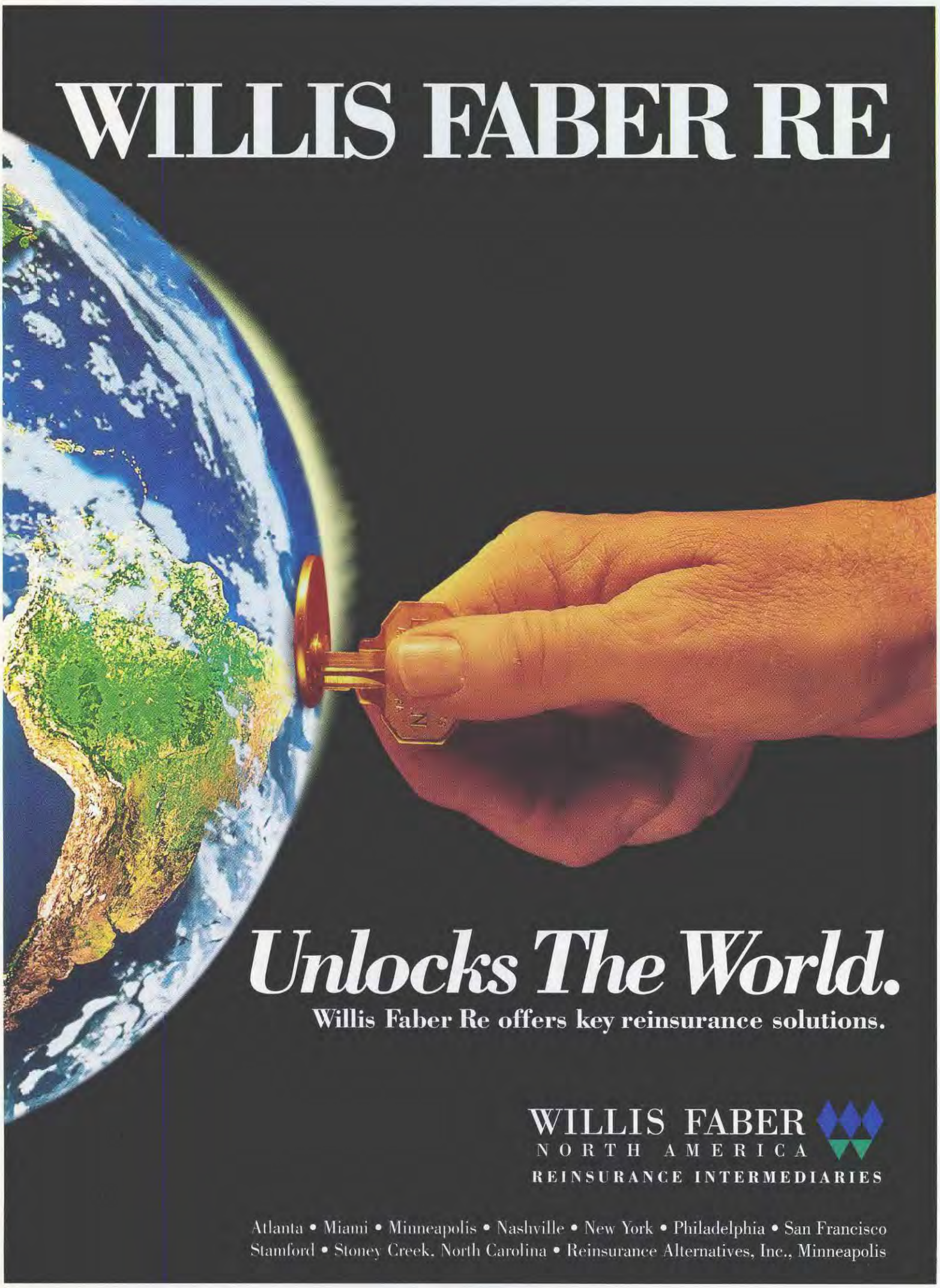
His family sued the YMCA, and a jury found that even though the YMCA had been negligent, the negligence did not cause the death.

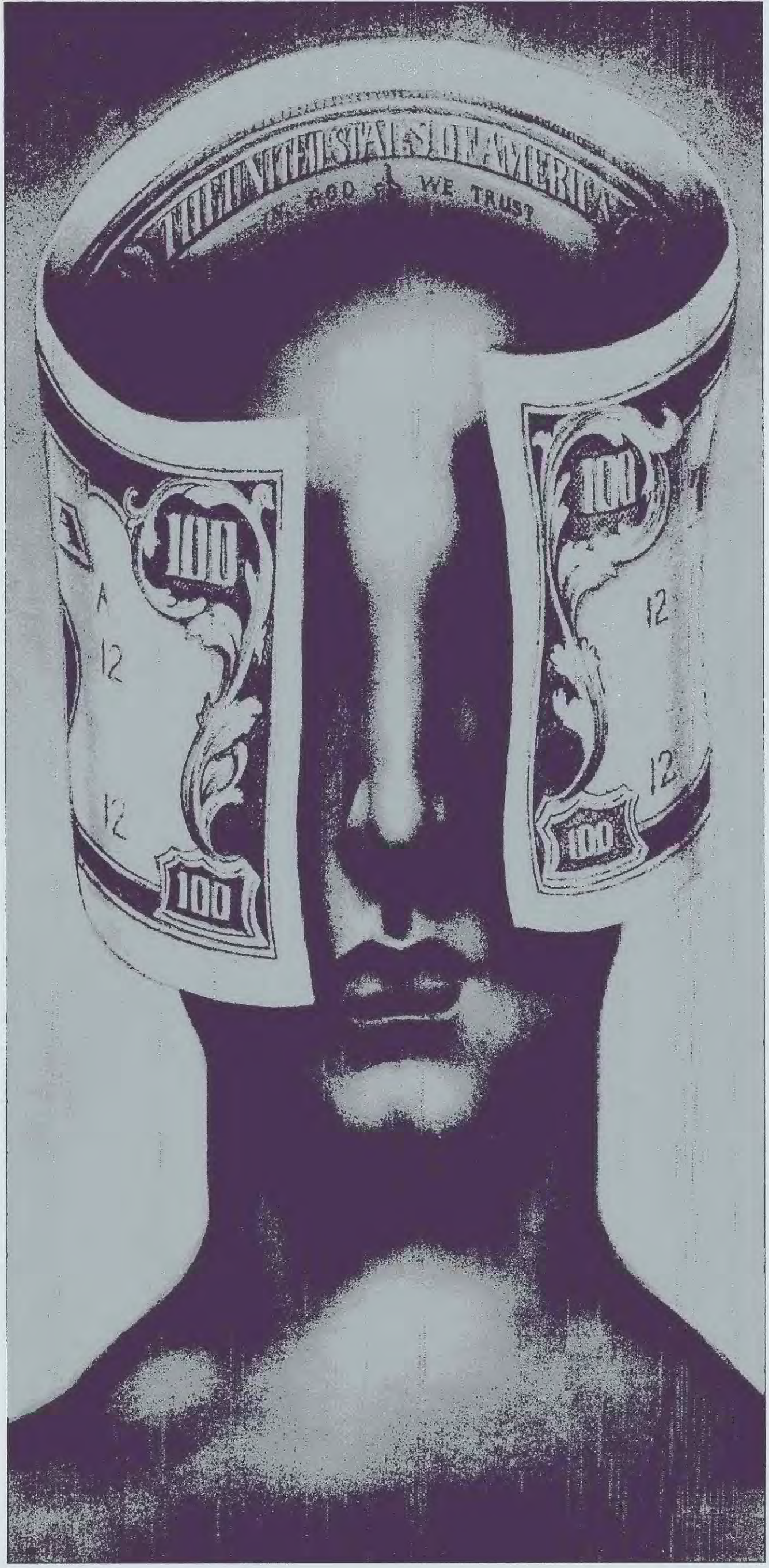
The plaintiffs appealed the ruling, contending the trial court should have told the jury that the YMCA's failure to provide a lifeguard service or supervisor in the locker room was negligent.

In affirming the trial court's action, the appellate court said in its decision last month that, though the state statute requires lifeguards at public swimming pools, "Here, the underlying question is whether the statute requires a lifeguard to be stationed at a 7-foot-by-10-inch by 7-foot-by-4-inch Jacuzzi that is 3-feet-6-inches deep and located in the shower facility of a locker room. . . .To construe the statute to require lifeguards for such facilities would compel Jacuzzi owners to hire professional lifeguards to oversee limited-use and relatively safe facilities. This is an absurd consequence."

Terry Anastassiou, of Ropers, Majeski, Kohn & Bentley in Redwood City, Calif., represented the YMCA. He said, "We think it's a good, common-sense decision by the Court of Appeals."

David Strout of Bush Strout & Kornfeld in Seattle, who represented the Andres family, said, "I still think that our position was the correct position, but I can say that I received a fair hearing." BI





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Brokers

Continued from page 1

Services Inc., both wholly owned subsidiaries of Arthur J. Gallagher Co. in Itasca, Ill.

Brokers are running scared in fear of losing renewals, he said.

John Kelly, chairman and CEO of Willis Corroon New York Tri-State Region in New York, said he is "seeing still-drastic price-cutting on renewals in just about all the major lines."

J. Hyatt Brown, chairman, chief executive officer and president of Poe & Brown in Daytona Beach, Fla., said the two areas with biggest rate drops he's seen are directors and officers liability, and property in Southeast coastal areas, with rates down 20% to 25% for those two lines compared with a year ago.

"Everyone is cutting their rates to get more premium," he said. All insurers are doing it, he said, unless "they want to give up market share."

"It's unrelenting in how soft the market is," added Rob Meyers, a managing director with J&H Marsh & McLennan in New York. The market "continually challenges us to raise our expectations of what's possible" with rates and coverages.

For a while last year, brokers benefited from increases in coastal property rates, noted Frank C. Witthun, president and CEO of Acordia Inc. in Indianapolis. But, he said, "that's even gotten to where everyone has turned the other way now and forgotten the hurricanes and earthquakes in California. The capacity in the marketplace continues to be beyond the need of the buyers. I don't see that changing."

In addition to lower prices, brokers say risk managers also can obtain larger limits on their property/casualty policies.

The biggest story so far this year has been the overabundance of capacity and the ability to place "substantial-limit deals with one carrier," whereas in the past it required two or three insurers, Mr. Cavaness said.

He noted that it is now common to place a $100 million property policy with one insurer. Last year the limits available from a single company were typically in the $25 million to $30 million range. In addition, casualty coverage limits are up to $50 million to $75 million, a large increase from previous years, he said.

Mr. Kelly said Willis Corroon is building property/casualty insurance programs with $100 million blocks of coverage, whereas in the past the blocks were smaller.

Because prices are so low and capacity so plentiful, brokers are changing the way they have historically conducted business.

"We are finding more and more examples where the customer is coming to us not for the transactional side of the business but coming to us for ideas, innovation and solutions to problems that they have, where maybe there's a transactional solution or maybe there is an alternative way of dealing with risk," said Mr. Kelly.

If the broker's role were to remain transactional, the broker "probably couldn't survive in the market because of prices being much less than even a few years ago," said Charles Fiske, senior vp at Sedgwick Inc. in Memphis, Tenn.

One way the distribution system is changing is through technology, Mr. Fiske continued. Brokers are investing millions of dollars to deliver information to risk managers faster and more efficiently.

At a minimum, brokers today need a complete system that enables their people to gather outside information, wrap it around a segmented class of business and offer that information to clients. Examples of such information include news about insurance products and services, international situations or financial products and services, he said.

"Brokers are stepping up to the plate very well," Mr. Fiske said.

In addition to technology demands, risk managers are looking for creative and customized products and services to meet their specific needs.

Brokers say integrated risk programs, employment practices liability insurance and coverage for the Year 2000 computer bug are a few of the hot topics on risk managers' minds at midyear.

Integrated risk programs—multi-year, multi-line products with a single self-insured retention—are one product that employers, especially U.S.-based global companies, are demanding more often today, said Lawrence Drake, managing director with J&H Marsh & McLennan in New York.

"That's where the global clients are

Continued on next page



Continued from previous page

heading in the next two to three years," he said, predicting integrated products will become more comprehensive, encompassing more lines, such as political risks, debt risks and currency fluctuation.

Mr. Drake also said he has seen the availability of limits up to $1 billion for integrated products, which is more than double the limits available a year ago.

Sedgwick's Mr. Fiske agreed such products will increase in popularity and predicted that 50% of the products brokers will sell in 2000 are not around today.

More risk managers also are looking into purchasing employment practices liability coverage, brokers say. At least two brokers, Sedgwick and J&H Marsh & McLennan, are responding to this demand by developing comprehensive EPL programs (see story, page 14).

Meanwhile, buyers are seeking clarification on whether their liability insurance policies cover risks associated with the so-called millennium bug.

"We're on the verge of underwriters each coming out with their explicit position on that issue," said Mr. Kelly of Willis Corroon. Some of the insurers are seeking to underwrite the issue and are in the process of gathering data from clients regarding their exposures.

Insurers are "tailoring their coverages to either completely exclude the exposure or narrowing down the scope of the coverage," Mr. Kelly said.

The customary practice in insurance is to not provide coverage for a risk that cannot be quantified, said Mr. Cavaness of International Special Risks Services. Because the Year 2000 impact is still unknown, it's hard for insurers to cover, he said. Partly as a result, many insurers are putting Year 2000 exclusions in existing products. "You see a lot of that today," Mr. Cavaness said.

The growing popularity of exclusions for Year 2000 exposures is the "cause celebre of property insurance right now," agreed Mr. Meyers of J&H Marsh & McLennan.

At least one broker is staying out of the Year 2000 market all together.

"We are not developing any product for the Year 2000 problem and are not actively pushing any product out on the market, because we don't think underwriters know how to underwrite that," said Mr. Fiske of Sedgwick.

"At the end of the day, who's going to decide who caused it and whether it should be insurable?" Mr. Fiske asked.

When it is all said and done, the millennium bug "could be the biggest financial disaster in our history, or it could be just a little poof," he said.

In addition to questions about Year 2000 coverage, brokers say there have also been increased discussions with risk managers in regard to divulging the amount of contingent commissions that brokers receive from insurers based on their accounts.

For the most part, brokers say it is difficult to break out commissions made on an individual risk when they receive incentives from insurers based on the total volume placed or on the profitability of the total book of business.

However, they say that if a risk manager asks, they will divulge what incentive information they can.

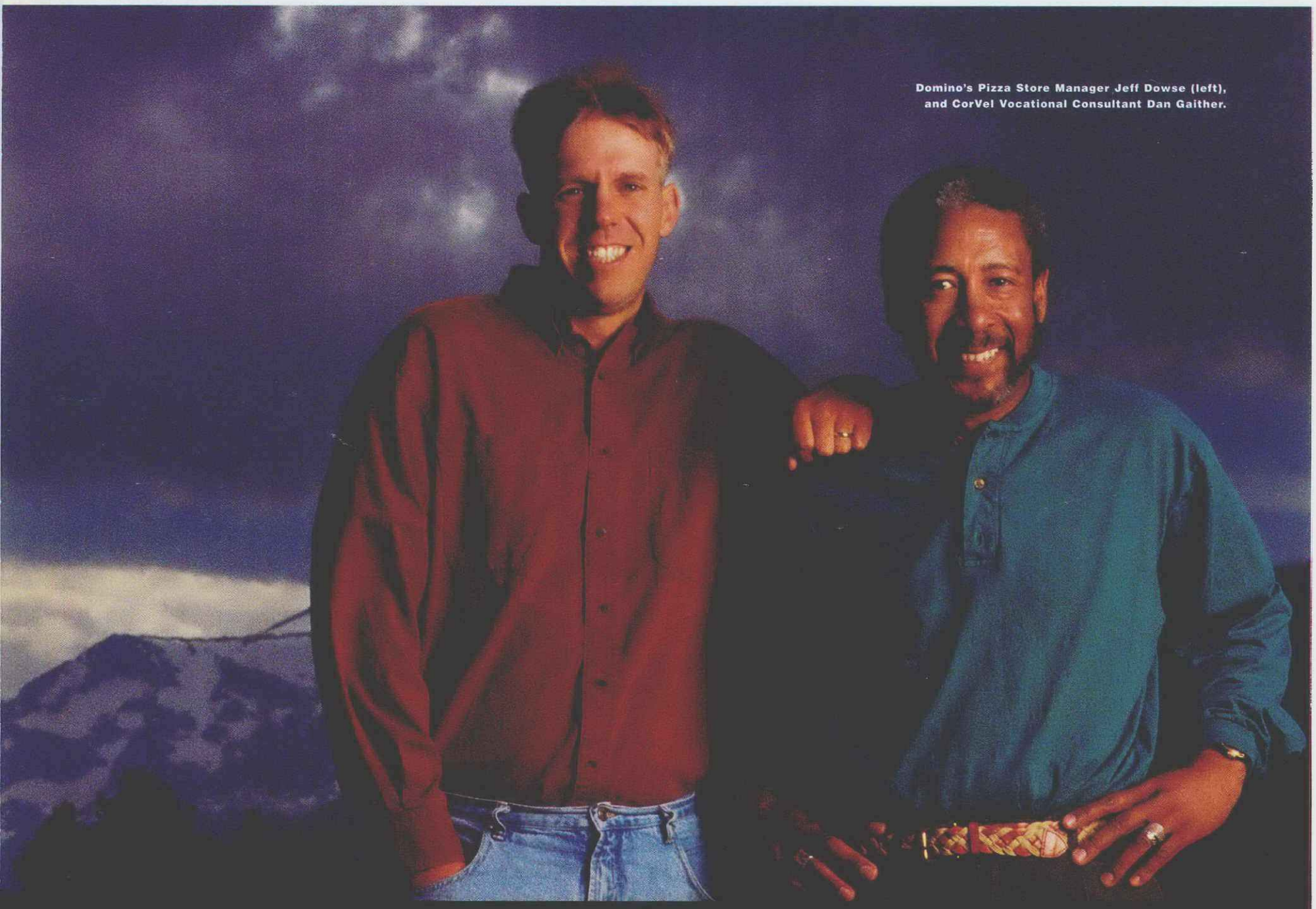
Willis Corroon's position is to "disclose to our customers our major sources of income from their account," Mr. Kelly said.

He added that he thinks the issue has been blown out of proportion. Generally, the contingent and profit-sharing agreements are geared to commercial accounts and the major risk management accounts are excluded from lots of the agreements, he said.

Mr. Fiske said Sedgwick is receiving more inquiries into incentive commission arrangements made with insurers. He echoed the sentiment that it is hard to break out specific commissions but said Sedgwick, when asked, will disclose any incentive commission arrangements it has with insurers.

"In the majority of the cases, you're not going to figure it out," Acordia's Mr. Witthun said about incentives from one client's individual account. "We might have a book of business in the millions and millions of premiums in a market," he said, asking, "And as to (that client's) piece of that pie?"

Mr. Witthun added, though, that when asked, Acordia will "absolutely" divulge what information it can on incentives. "I think that unless we do what is in the best interest for the client, and not the best interest for the insurer, we will very soon not have that client," he said. BI



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Brokers' programs going to work on EPL exposures

By SALLY ROBERTS and MICHAEL PRINCE

A growing threat of employment practices liability lawsuits and a proliferation of coverage options is prompting two large brokers to develop comprehensive EPL risk management programs.

The Supreme Court, ruling late last month on two sexual harassment cases, further highlights employers' need to take steps to minimize liability or avoid it altogether (*BI*, June 29).

Sedgwick Inc. is putting the finishing touches on a new comprehensive employment practices liability program that will provide risk management services and coverage for employers with as few as 250 employees.

Under the new program, called FIRSTChoice and set to be launched by September, employers will be able to choose from a variety of EPL coverages and loss control services offered from several providers.

Royal Insurance, Chubb Corp., Executive Risk and National Union Fire Insurance Co. of Pittsburgh, Pa., will be offering EPLI products under FIRSTChoice. Attorneys from the law firm of Jackson, Lewis, Schnitzler & Krupman of White Plains, N.Y., attorneys from Sedgwick Risk Consulting Services or other approved local counsel will offer various risk management, loss control and loss prevention services, explained Phillip N. Norton, managing director of Sedgwick Financial Risk Specialists in Chicago. He spearheaded the new program.

FIRSTChoice, as its name suggests, is designed to offer employers more choice and flexibility in buying comprehensive EPL insurance, something Mr. Norton said has "become critical" in today's litigious environment as more employers are hit with liability for the actions of their employees.

Many employers still think "they don't have any exposure because their loss history is good." He said any company that has employees has exposure to employment practices liability.

"With the trend in frequency and severity increasing exponentially, we see this insurance as something that is an essential part" of a corporation's risk portfolio, Mr. Norton said. However, "we also don't see insurance as the comprehensive solution. As many as one-half of the employment practice claims are preventable," he said.

With prevention, and in some cases mitigation, in mind, insurers taking part in FIRSTChoice will offer a variety of loss prevention and loss control services as part of the program.

Jack Kuhn, vp and executive protection products manager for Chubb, for example, said the Warren, N.J.-based insurer's FIRSTChoice product, which still is being developed, will provide such loss prevention services as human resource audits, economic studies and human resource training.

"I think it is important in today's environment to provide the flexibility to choose" what loss prevention services employers need based on their individual exposures, Mr. Kuhn said.

To participate in FIRSTChoice, employers must retain at least $25,000, Mr. Norton said. The minimum premium is $15,000, and the minimum limit offered by the participating insurers is $25 million, but the program can construct up to $100 million in limits.

BROKERS REPORT

While the EPLI coverage offered by participating insurers will differ, all will provide broad coverage for workplace discrimination, wrongful termination, sexual harassment and other employment-related claims, Mr. Norton said.

In addition, such commonly overlooked perils as breach of employment contract, defamation, workplace harassment and constructive discharge also will be covered in the program, Mr. Norton said.

The Sedgwick program comes on the heels of a similar program offered by J&H Marsh & McLennan Inc.

First introduced in late 1997, the Leaders Preferred program also combines insurance with risk management audits by a leading employment law firm, said Peter Foster, a vp and co-developer of the program in J&H Marsh & McLennan's Boston office.

Initially designed for mid-sized employers, Mr. Foster said the broker now also is targeting large employers. To date, the program has attracted 112 accounts.

The J&H Marsh & McLennan program offers EPLI coverage up to $50 million through National Union, or $25 million through Executive Risk or Zurich-American Insurance Group.

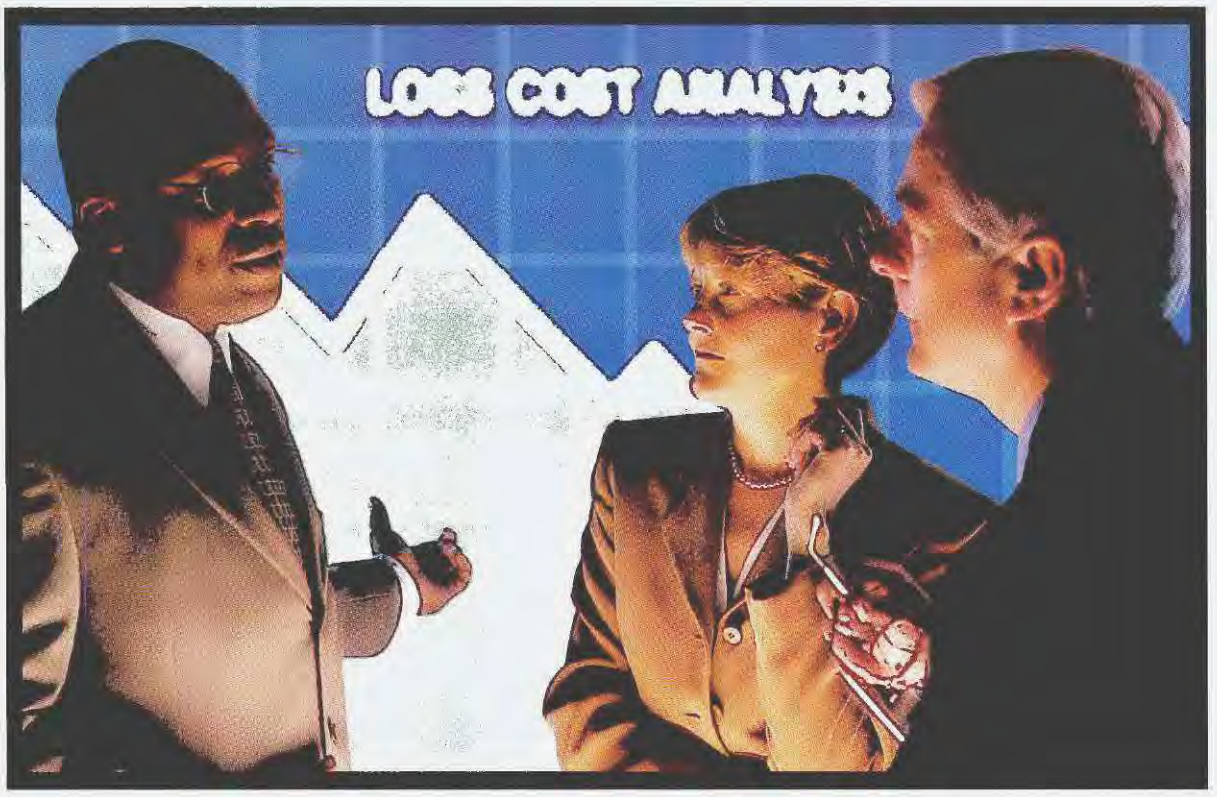
Equally as important as the insurance coverage is the audit conducted by Littler, Mendelsohn, a San Francisco-based law firm. The audit looks at the employer's procedures for hiring, firing, performance evaluation and investigating claims of discrimination. A report is prepared and recommendations for improvement made by the law firm.

"They know there is insurance to protect them financially, but they want to know how to avoid the claim, how to avoid the allegation," Mr. Foster said.

Besides reducing the number of claims, an audit can limit the amount of a jury verdict, he said. An employer found deficient in its procedures for investigating discrimination claims will be instructed by the auditor how to improve them.

With the improved procedures, and 95% of all employers follow the recommendations, he said, the employer is insulated against allegations that it didn't follow up on an employee's claims of harassment.

"That's the area where a lot of companies get hit with punitive damages," Mr. Foster said. BI



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Insurers

Continued from page 1

trast, has seen June-July renewals slip in activity and become its third-most important season. Larry Rand, vp and chief underwriting officer-commercial insurance for CNA in Chicago, said that for the insurer's largest clients, April has now become the renewal date of choice, elbowing out year-end and midyear renewals.

No matter what percentage of their books of business are renewing at midyear, insurers unanimously report price reductions across the board, the degree of which varies only by line of business. Only problem accounts are registering any rate increases in most lines, insurers say.

Tom Swensen, vp-underwriting and product services for the Wausau Insurance Cos. in Wausau, Wis., said the commercial property/casualty insurance market has now gone "even beyond" the soft conditions of the early 1980s to become the most competitive he's seen in 25 years.

"It's very competitive. We don't see much end in sight, because



most companies are reporting very good earnings," said Esther Sprano, vp and chief marketing officer for Waltham, Mass.-based Arkwright Mutual Insurance Co.

"We are seeing particular pressure from some of the newer capacity in the market in the tough classes, where there is high premium volume and, consequently, higher exposure, because the aim by those companies is toward premium growth," said Roger Gillett, senior vp-business development for ACE Insurance Co. Ltd. in Hamilton, Bermuda.

The same pressure holds true in property, he said. "The cat-exposed business is under greater pressure because that is where the greater premium volume is," Mr. Gillett said.

The property market "continues to be very soft; we're describing it as a demand market. Our major emphasis is to differentiate our product and to provide engineering services," said Armand Colaninni, vp and director of operations in Dallas for Protection Mutual Insurance Co.

"The market is very sloppy, but we don't use that as an excuse. This is the market. The only thing we can do is keep looking for pockets of opportunity. Whether it's been luck or just good strategic planning and being a little agile, we have been able to find tremendous pockets of opportunity," said Robert Steinberg, president and chief operating officer of Reliance Group Holdings Inc. in New York.

"Competition is fierce with a wide array of markets in various segments we're in. Insurers like us are pressed harder than ever to make critical risk selection and pricing decisions that meet the top- and bottom-line objectives we have every year," said Mike Turner, vp-marketing for Allendale Mutual Insurance Co. in Johnston, R.I.

"Depending on the quality of the risk, (property/casualty) rates are either holding steady or dropping up to 5% from six months ago," said Paul J. Krump, senior vp and managing director of Chubb & Son Inc. in Warren, N.J. "We're still seeing a slide, depending on quality of customer."

On some accounts, brokers are asking for a reduction in rates or expanded coverage, he noted. Chubb is holding the line on rate decreases to anywhere from none to a 5% reduction on package programs, workers compensation, commercial auto, middle-market property/casualty accounts and middle market umbrella liability policies, he said. The larger risk management accounts are experiencing rate reductions of up to 10% across all lines, Mr. Krump said.

"An account that would be getting a rate increase would be having some problems," he added.

Premium reductions vary by class of risk, with clients generally not asking for as much of a reduction at midyear as has been the case in past renewal periods, said ACE's Mr. Gillett. Nevertheless, in most classes at midyear, policyholders are looking for 10% reductions—and some are getting them, he said.

Not all price reductions appear in strictly dollars-and-cents terms.

"What we are seeing are hidden price reductions. That is underwriters throwing in more or broader coverages for the same or slightly reduced prices, but the net effect is it's a more significant reduction in price with more exposure," pointed out Ward Jungers, CNA's group vp and chief underwriting officer.

"From an underwriting perspective, prices have gotten about as low as they can get. It's a very fragile equation, because so much rests on investment income," said Tom Kaiser, president of international accounts for Zurich-American Insurance Group in Schaumburg, Ill.

On a line-by-line basis, property/casualty insurance rates continue to head south.

Wausau's Mr. Swensen said primary general liability rates have dropped anywhere from 5% to 10% from where they were a year ago, with low-layer excess liability dropping by the same margin.

CNA's Mr. Jungers said the excess liability layers are "a particularly soft segment of the liability market, which is fairly typical for a soft market. The excess tends to be an area where price reductions are more extreme."

Zurich's Mr. Kaiser said high-layer or catastrophe excess liability "continues to be under pressure. If there is a commoditization of this business, it's in that area. That's where the overabundance of capacity shows itself," whereas the primary casualty piece is being driven more by service.

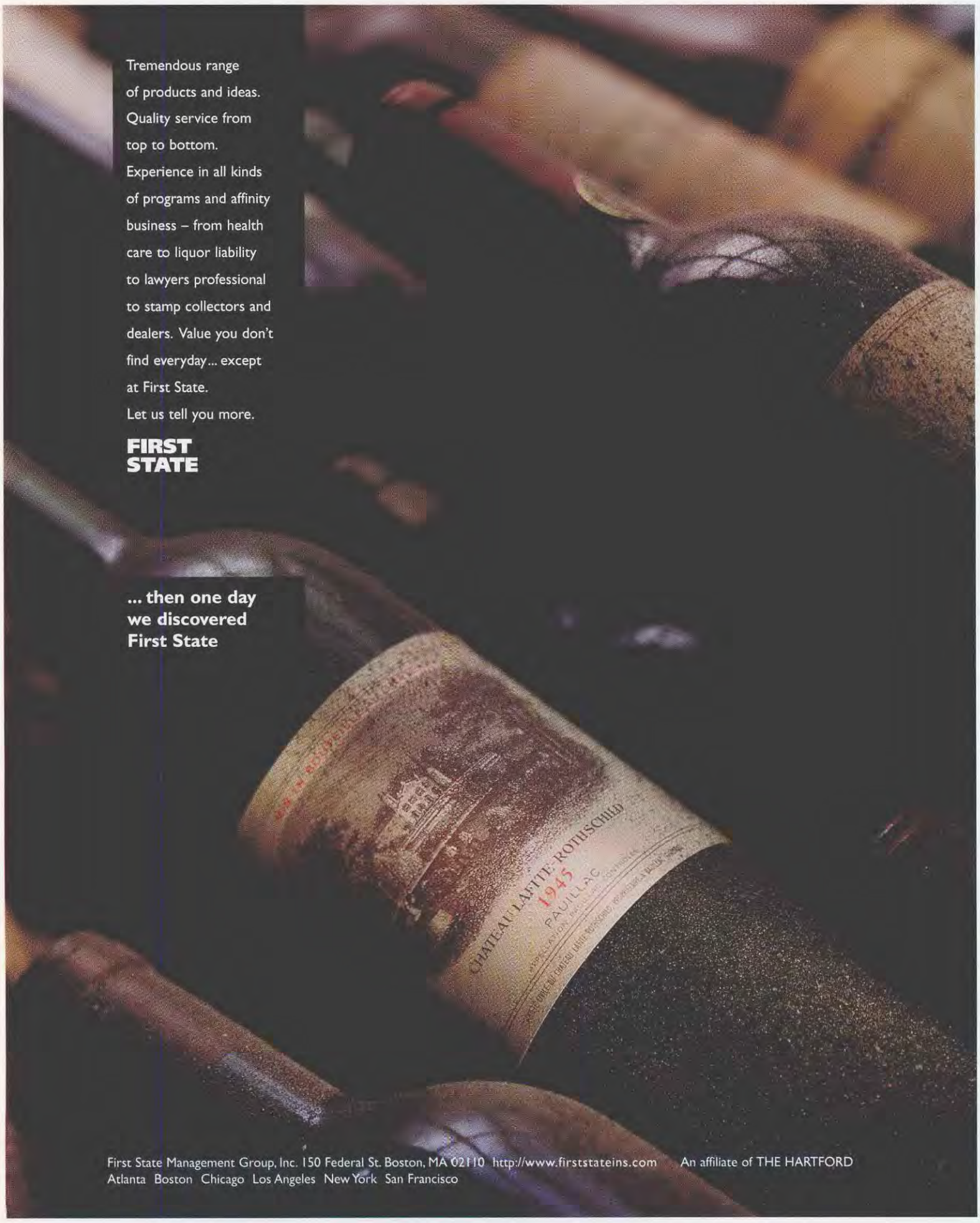
High-hazard liability, however, is "fairly stable," said Mr. Swensen of Wausau.

Specialty liability lines are also feeling considerable pricing pressure, several underwriters say.

"The specialty lines are undergoing a lot more competition because of newcomers in the marketplace," said Zurich's Mr. Kaiser.

"There is a great deal of competition in the municipal liability market, which can be good for the public entity sector in terms of pricing. The extent of the rate deterioration is difficult to measure because of some erratic behavior in the market," said Ron Seymour, senior vp-public entity/alternative markets in the Irvine, Calif., office of Gulf Insurance Group, a New York-based unit of Travelers Corp.

See **Insurers** *on page 18*





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Insurers

Continued from page 16

Directors and officers liability is "very soft" on pricing, said CNA's Mr. Jungers. In addition, the D&O line is experiencing a lot of pressure on policy conditions, as well as a continued push for three-year or other multi-year policies to lock in current rates, he said.

"Inevitably, the (loss) experience, which is surely going to deteriorate, will cause some firming in price," said Mr. Jungers, adding, "I would be quite pressed to put a horizon on that, however."

In some cases, plunging rates are discouraging insurers from providing coverage in certain lines, said Mr. Gillett of ACE.

CNA's Mr. Rand said employment practices liability rates keep going down while lawyers find more ways to bring suits.

"It appears the risk is going up and price is going down, and that equation doesn't make us want to play in that market," he said.

The one bright spot on the liability insurance horizon for underwriters could be medical malpractice, said Mr. Jungers.

"There are some signs in the medical malpractice area that the (loss) experience is already starting to put the pressure on company returns. I would say we can expect to see a hardening of that market sooner than later," he said.

Pricing for environmental liability insurance is "stable with a steady decline; prices are going down," said Zurich's Mr. Kaiser.

Surety and bankers bonds rates are generally holding their own, said Reliance's Mr. Steinberg, who said Reliance's surety operations are growing by 10% to 12% a year.

"Those lines are just doing very well. Rates are holding. Maybe there is a little pressure on commission, but rates are holding. This is a very good environment for the surety world because you don't have very many claims," Mr. Steinberg said.

Workers compensation, which had been a bright spot for some underwriters as regulation improved in recent years, is no longer their salvation.

Workers compensation is "the line that we are seeing as the most competitive, through a combination of state reduction in rates or loss costs, combined with company deviations and dividend plans. It's the biggest challenge we see facing our company," said Mr. Swensen of Wausau.

In many states that generated positive results in workers comp in the mid-1990's, insurers are now experiencing their third or fourth double-digit rate or loss cost reduction in a row, but new players continue to enter the marketplace, basing their decisions on the results of five years ago, Mr. Swenson said. "If they're betting on the rates being redundant or excessive, it's not there any more," he said.

The best years may now be behind the workers comp industry, one insurer executive says.

"We have seen several years of substantial improvement in workers comp, a lot of which has been driven not only by state reform but also the ability of the industry and the customers to partner and deliver some of the managed care techniques on the work comp side," said CIGNA's Mr. Kane. "My sense is that the best years are now behind us, and if you look at the social and political pressure pushing back on managed care and HMOs, we are likely to see—and have already started to see—some cost increases percolate through the system," he said.

Property rates continue to be battered, regardless of whether the property in question is a highly protected risk.

"There is continued rate pressure on both HPR and non-HPR. The pressure also applies to commercial property with a catastrophe exposure. We view the market right now as being undisciplined," said Protection Mutual's Mr. Colaninni. Property rates are dropping by the high single digits, he said, though the amount of the decline varies by account.



"Within the last six months, it's just gone crazy. Very, very competitive," said Wausau's Mr. Swensen of the HPR market.

Mr. Swensen described an HPR renewal to illustrate his point.

Two companies merged, and both had HPR insured values in excess of $1 billion each. When they merged, they opened up their combined risk to bids, and both incumbent insurers quoted on it. One of the two incumbents offered to write the combined and enlarged account for the expiring price of one of the programs being merged, said Mr. Swenson, who emphasized that the underwriter in question was not Wausau. "It's just cutthroat out there."

Mother Nature is playing a role in the property market's continued softness, pointed out CNA's Mr. Jungers.

"The lack of catastrophes is generally causing the market softness to perpetuate, but not just in cat exposures," he said. Favorable results due to a lack of catastrophes also may prompt some companies to be more competitive in other lines. "Earnings are so strong, it affects all of the business–property, liability, cat and non-exposed," he said.

There is "not a whole lot of differentiation" between rates for catastrophe-exposed and non-catastrophe-exposed property, said Arkwright's Ms. Sprano. While rates are lower, deductibles seem to be holding for catastrophe-exposed property, she added.

All-risk policies are seeing sharp rate cuts, one insurer says.

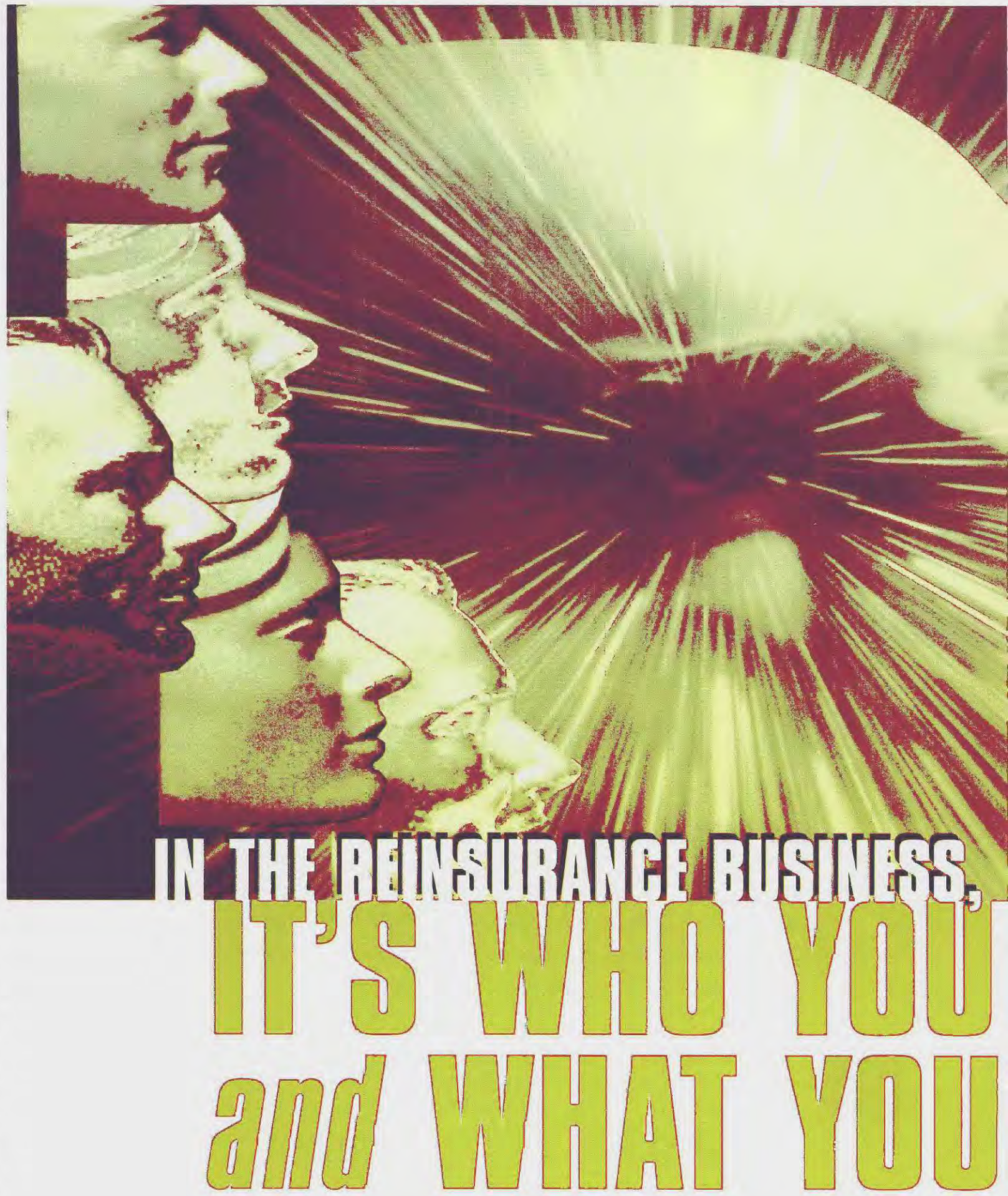
For really large all-risk policies that include boiler and machinery and property, rate cuts of 25% to 35% are not unusual from some markets, because capacity is drawn to the large premium accounts without regard for exposure, said Rick Gibbons, senior vp-underwriting and general manager of the energy division at Hartford Steam Boiler Inspection & Insurance Co. in Hartford, Conn.

Meanwhile, buyer interest in relatively new products continues to grow, said several underwriters.

Multiyear insurance policies are becoming increasingly popular, said CNA's Mr. Rand. "In large accounts, we are seeing more and more requests for three-year programs with single deductibles for all lines," he said.

Wausau's Mr. Swensen said that while multiyear catastrophic risk policies have been on the market for some time, they have become much more popular in recent

Continued on next page



Continued from previous page
months, as requests for quotes have shown.

There is also some interest in multiline insurance programs.

"Over the last year and half, our Fortune 500 clients that are interested in combined risk programs discovered that the benefits don't outweigh what they can get through traditional risk transfer programs with the market being so soft. However, there are other clients who have concluded that the change to those programs are worthwhile," said Allendale's Mr. Turner.

CNA's Mr. Jungers said customers are requesting that the insurer add protection for business risks, such as foreign and interest rate fluctuations, to insurance programs.

"Any change in the economic environment that would affect profitability of a business is a target for inclusion in the insurance program," he said. Mr. Jungers cited foreign exchange risk hedging as an example of an area in which interest has picked up in the past six months.

ACE's Mr. Gillett said he is seeing more demand for multiline policies, as well as a broader form of coverage under D&O policies.

In particular, he said, there is increased demand for an ACE product that will cover solely side A risks, which are directors' and officers' personal liability for their actions.

There is increased demand for that as a stand-alone cover due to the potential for such coverage to be eroded by losses under broad-form D&O coverage, which also indemnifies the company for losses incurred by directors' wrongful acts, or by losses under other parts of a multiline policy, he said.

For example, under a multiline policy with a single aggregate limit, a big property loss could erode the side A D&O coverage, leaving individual directors and officers exposed to liability.

"One of the things that's happened over the past 12 months is much more involvement by risk managers in their program design. I think everybody talks about the buyer becoming much more sophisticated—it's happening just by the involvement we see by risk managers," according to Zurich's Mr. Kaiser.

Any change in the economic environment that would affect profits is a target for coverage, says CNA's Ward Jungers.

Risk managers also are showing more concern about their exposure to the rapidly approaching year 2000.

Interest in—and concern over—the Year 2000 computer problem has grown considerably in recent months, several underwriters say.

"I don't know if I would call it great urgency. Up until a month or so ago, we were not getting any inquiries from producers or clients about our position on Y2K. In the past few weeks, those questions are starting to come in with a fair amount of frequency," said Mr. Swensen of Wausau.

Risk managers aren't asking for coverage or advice but just want to know what the insurer's position on the matter will be, he said, adding that "we're working on that right now."

"It's definitely creating urgency among risk managers. There's definitely a lot of pressure to do something," said Arkwright's Ms. Sprano. She said the insurer is getting requests for fee-for-service audits for "all business processes to identify Y2K glitches."

CNA's Mr. Jungers said the insurer's large accounts are looking for advice or service in helping identify the amount of risk they have, and that those requests have increased recently.

"I have been surprised by word we have gotten from association meetings that a number of business owners seem to just be awakening to the problem. Some of them really need to wake up and get out of it," said Mr. Rand of CNA.

The Year 2000 liability "is very hard to get your arms around," said Reliance's Mr. Steinberg. "I think a lot of companies like ourselves are doing a lot of work in that area trying to get a better sense of what the Year 2000 liability is." Reliance was among several insurers who worked with J&H Marsh & McLennan Inc. in developing a Year 2000 liability coverage product.

Chubb also is working on products that would respond to Year 2000 computer problems, said Mr. Krump. "We are in the process of informing our brokers about our approach to Y2K. More will be coming out in the next week or two. Underwriters are going to have to start divulging what their strategies are for that."

"Ours is really going to respond to the exposures presented by the individual client," he continued. "It varies by product type as well. The response for Y2K would be different for a package client, which could easily differ from a software manufacturer, a winery or a metal shop. We have spent a tremendous amount of time trying to figure out whose exposure will be the greatest, so we can be fair to the clients."

"Chubb will be taking a very balanced approach to respond to individual insured exposures, said Mr. Krump. "We have studied the issues by product, by industry type, and are in the process of communicating with agents and brokers—some over the coming weeks and months."

"Several domestic markets, HSB included, have reiterated that the all-risk policies they're issuing will only cover physical damage that could result from the inability of a computer or embedded processor to recognize the date," said HSB's Mr. Gibbons.

Zurich's Mr. Kaiser said that although the likely impact of the Y2K will probably be "somewhere between" the worst-case scenario and little impact at all, it is certain to cost a lot of money to fix.

If the general market trend has remained unchanged for nearly a decade now, the same is true for insurers' outlook for dramatic change: nothing on the horizon, they say.

"We don't see any change coming. . . .Right now, the market's flush with capacity," said Allendale's Mr. Turner.

A catastrophe generating $50 billion in insured losses might have to occur before the commercial insurance market would turn, said Arkwright's Ms. Sprano.

On the property side, however, any turn in pricing will have to begin in the reinsurance market, where reinsurers will begin to signal that their costs are going up rather than down, said CIGNA's Mr. Kane.

"In terms of anecdotal evidence, we have already started to hear or see a few situations like that," he said. BI



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Reinsurance prices soft, capacity plentiful

But rate of decline in pricing may be slowing down, some intermediaries say

REINSURERS REPORT

By GAVIN SOUTER and JUDY GREENWALD

The pace of reinsurance rate decreases appears to be slowing at midyear renewals, but still there are no signs of any hardening in the market.

The prolonged soft market continues to prevail, and cedents are enjoying plentiful and cheap capacity.

About the only change in the market is the looming issue of how to tackle the Year 2000 problem from a reinsurance standpoint. And while the Year 2000 problem may be causing concerns throughout the insurance industry, reinsurers in the United States do not appear to be attempting to exclude coverage.

Instead, reinsurers say they will monitor how cedents are underwriting accounts from a Year 2000 standpoint and consider leaving programs with which they are unhappy. But there is little evidence of any exodus from Year 2000 risks.

At midyear renewals, the reinsurance market "is absolutely a marketplace without energy or direction," said Willis T. King Jr., vice chairman in charge of sales at reinsurance intermediary Guy Carpenter & Co. Inc. in New York.

Rate decreases appear to be slowing slightly, but there is little change in what is a heavily capitalized business, Mr. King said.

"We live in an overcapitalized business, and guess who just arrived at the door" with more billions in capital? he asked, referring to the pending merger between Omaha, Neb.-based Berkshire Hathaway Inc. and Stamford, Conn.-based General Re Corp. (*BI*, June 22).

Brian McGuire, senior vp and director at reinsurance intermediary U.S. Re Corp. in New York, said, "I wish I could say (renewals) were going nice and fat with prices."

However, he added: "It's not much different than it was on April 1 in terms of the property classes. Primary business rates are pretty much down, probably from where they were a year ago by about 8% to 10%," said Mr. McGuire.

"If I was to draw a picture of the market I'd draw a picture of a snake swallowing its own tail," said Dennis Zettervall, chief executive officer of Hartford Re Co. in Hartford, Conn.

Reinsurers are broadening the coverage they are offering and at the same time reducing rates to levels that are too low to support loss payments, he said.

"I'm now convinced that there will be a turn in the market because results will be so bad. . . .If you sell your product below costs, you will pay a price," Mr. Zettervall said.

There are "no signs of a tightening of the market," said Chris Walker, chairman of Bloomington, Minn.-based reinsurance intermediary E.W. Blanch Co.

There has been "no significant change in terms of pricing. It certainly is not getting any firmer," he said.

The rate of decline may be slowing, he said, but not significantly.

Rate decreases seem to be slowing a little, but still there are no signs the market is hardening, agreed Steven Bolland, senior vp with reinsurance intermediary Gill & Roeser Inc. in New York.

"I'm not noticing it going down as fast, although obviously you're seeing reductions in prices year on year because the price went down a little bit at year end, and people (renewing now) are catching up.

"I've noticed a slight slowdown in the rate of decline apart from that. The market is still very soft, and it's very, very competitive out there. I just think we've seen a slowdown in the scale," said Mr. Bolland.

Tom Rogers, senior executive vp for Aon Re Inc. in Philadelphia, represents primarily large, publicly held insurers. He said that while the market is "very, very soft," it is not any softer than it was six months ago for the market for which Aon Re places business.

"There's a view out in the market right now that anything can be accomplished and, frankly, that's not the case," said Mr. Rogers.

John N. Gilbert Jr., president of New York-based Holborn Corp., a reinsurance intermediary, said, "It's business as usual," with no significant changes in the market.

"Because of lack of loss activity, further improvements have been granted by reinsurers in terms of rates and some coverage improvements," said Mr. Gilbert.

On the other hand, there has been some deterioration in experience on programs in general, and the Midwestern storms have caused higher losses than originally were expected, he said.

"I don't think (the storms are) going to have a major effect on the market, but I do think it will have an effect on slowing down the downward spiral," said Mr. Gilbert.

Casualty reinsurance rates are falling about 5% to 10%, and insurers are seeking increases in profit commissions as the market remains soft, said Steve Tirney, president and chief operating officer of PMA Reinsurance Corp. in Philadelphia.

"The commissions were very high last year, but this year (cedents) are still looking for another point or two," he said.

Generally, rates across all lines are falling about 15% to 20% for international business and 10% to 15% for U.S. business, said John J. Dwyer, chairman of Terra Nova (Bermuda) Holdings Ltd. in Bermuda. "But it is not any worse in July than it was in January," he said.

Cedents are continuing to enjoy plentiful capacity as the absence of any large catastrophes continues to keep reinsurers profitable, Mr. Dwyer said.

"But some sanity has to come

See **Reinsurers** *on page 22*

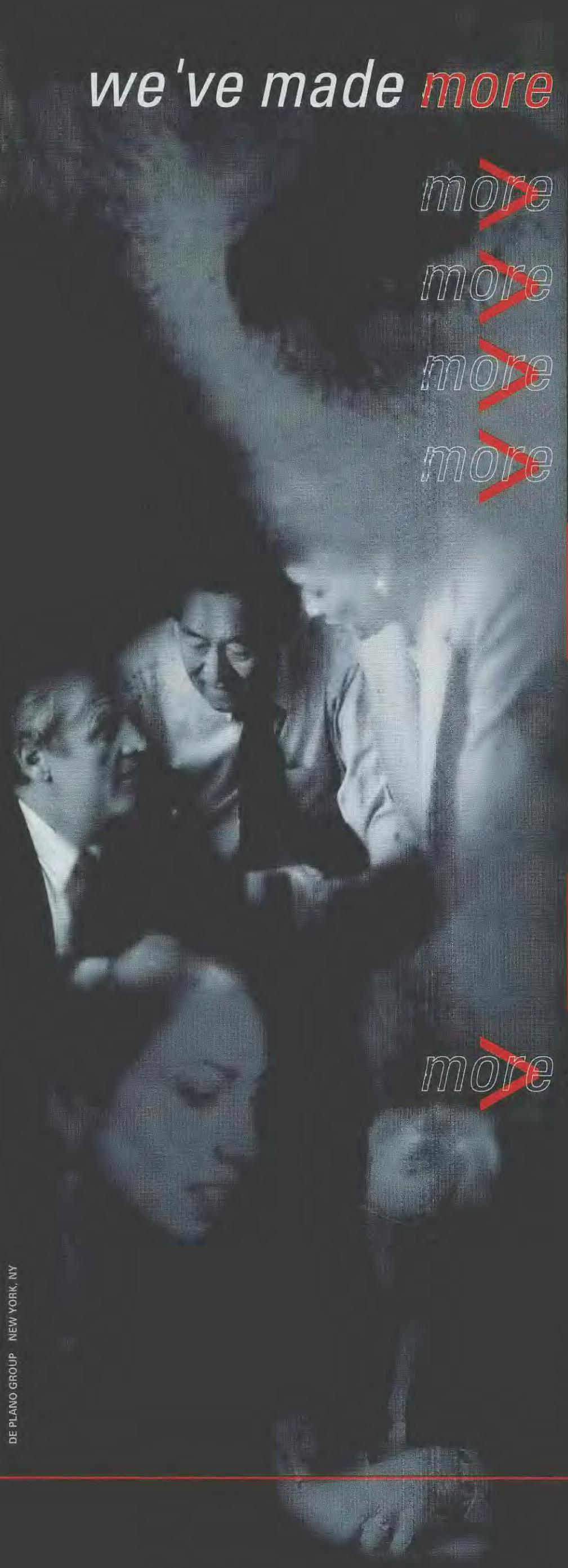


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Reinsurers

Continued from page 20

back to the market. . . .You can't have profits for four years in a row and think that that is enough to cover a one-in-a-hundred kind of event," he said.

The profitable business of cedents is largely personal lines coverage, said Jean-Pierre Fillebeen, vice chairman and CEO of SAFR Reinsurance Corp. of the U.S.

"In many instances, personal lines business is carrying the results of companies," he said.

When the programs are brought to reinsurers, cedents are enjoying similar decreases to those granted in January, Mr. Fillebeen said.

For example, catastrophe excess-of-loss rates are down about 15% in June, he said.

The cheap price of reinsurance is encouraging some cedents to reduce their retentions and buy more coverage, said Jacques Bonneau, senior executive vp at Chartwell Reinsurance Co. in Stamford, Conn.

"The (cedents) want to show growth in terms of premium volume, but there is also the realization that they can transfer risk at very attractive rates," he said.

But that increase in demand is doing nothing to change the market, Mr. Bonneau said. "There is continued pressure on pricing, commissions and brokerage," he said.

Reinsurers themselves are looking for more retrocessional coverage, said Mr. McGuire of U.S. Re.

"On the retrocessional side, we're seeing a greater demand, believe it or not, in terms of acquiring higher retrocessional limits, and that's one area of the industry where rates have seemed to hold firm," he said.

Traditional market capacity on the retrocessional side has not grown significantly, Mr. McGuire said.

As a result, buyers seeking higher limits "are buying basically nontraditional or alternative reinsurance arrangements to satisfy that need," and there has been more growth in this area, he said.

Demand also is increasing for multiyear policies, said Mr. McGuire.

"A number of clients are trying to basically buy 36-month covers, which would in effect give them the benefit of the soft market rates for another 24 months beyond the first year" of coverage, Mr. McGuire said.

Last year, he said, major primary clients that attempted to do this found about $40 million to $50 million of capacity per treaty available on that basis as of Jan. 1. "On July 1, we're seeing a little bit more capacity beyond that $50 million mark," he said.

In this market, capacity growth is "understandable because of the need to maintain or attempt to grow market share," he said.

The increase in multiyear policies can be attributed in part to the Year 2000 problem, said Mr. Tirney of PMA Re.

"It could be that they want to lock rates in or it could be that they want to make sure that their reinsurance program spans the year 2000," he said.

While reinsurers say they are closely monitoring Year 2000 exposures, generally, they are not trying to exclude the risk at midyear renewals.

"We are asking specific questions of ceding companies as to what they are doing about their Year 2000 exposures, because if there are losses presented to us it will be because of what they are doing," said Mr. Tirney.

While most existing programs are not being refused because of Year 2000 exposures, some new accounts are being turned away, he said.

"We have turned down some new opportunities because we thought there were some Year 2000 problems," Mr. Tirney said.

Reinsurers still are deciding what they will do about Year 2000 exposures, said Mr. Fillebeen of SAFR.

"Our position on the Year 2000 is evolving, but we want to know what insurers are doing and what measures they are taking," he said.

But any real action by insurers and reinsurers over Year 2000 exposures will likely come, if it comes at all, at year-end renewals, when the annual contracts renewing will encompass the turn of the millennium, said Mr. Bonneau of Chartwell Re.

"At the moment, it is not the norm to put in exclusions, but people will have to make some hard decisions when 1/1/1999 comes up," Mr. Bonneau said.

Currently, ceding insurers are resisting reinsurers' attempts to impose Year 2000 exclusions, said Mr. McGuire of U.S. Re.

REINSURERS REPORT

"The reinsurers are looking to impose exclusions, especially in some of the professional liability portfolios." However, "our clients are not prepared to accept such exclusions" and they "are the ones that are putting their foot down because of the softness of the market," said Mr. McGuire.

But, in most cases, reinsurers are not aggressively seeking to exclude Year 2000 exposures, said John Cashin, executive vp at Willis Faber North America Inc. in New York.

"Underwriters have agreed to leave the Y2K problem unaddressed, and it appears no one wants to be the first to issue an exclusion for fear of losing market share on renewal," Mr. Cashin said.

TIG Reinsurance Co. is also tackling the Year 2000 problem on a case-by-case basis, said Mark W. Hinkley, executive vp at the Stamford, Conn.-based reinsurer. TIG Re has not left treaties as a result of the problem but when it is concerned with a particular cedent it has led to tougher negotiations, he said. "And we have walked away from some facultative business," he added.

Reinsurers still are mulling over what the Berkshire Hathaway purchase of General Re will mean for the market.

"It's a good move for General Re, and it will add to their strength. But if you take us and Partner Re, it will make us work even more with the intermediary market. We want to be an alternative to the big companies," said Mr. Fillebeen of SAFR.

The purchase will help both General Re and Berkshire Hathaway in terms of their own organizations, but it should not be especially detrimental for other reinsurers, said Mr. Tirney of PMA Re.

"Now that they are together, they will have some synergies, but we were competing with them both individually before, and now that they are together, I don't think it will make a whole lot of difference to us," he said.

The purchase likely will not have much effect on other reinsurers, said Mr. Hinkley. "General Re was attractive enough before, so I don't think this will change the landscape that much," he said. BI



Falling rates spur flexibility in London

By MATTHEW MacDERMOTT and SARAH GODDARD

Innovation and flexibility are two of the key buzzwords running through the London international insurance market.

With soft market conditions continuing for the foreseeable future, some underwriters are responding to the market conditions by launching new products and showing greater flexibility to maintain business.

One of the major trends emerging from London is the growth of "packaged" or multiline, multiyear policies.

"I think it is fair to say that London is leading a lot of these things," said Ross McKenzie, chairman of non-marine for Aon Group Ltd. of London. "It is quite flexible with new products and styles."

Although firm feedback on July 1 renewals still is coming in, without question rates are continuing to fall across all lines.

LONDON REPORT

Worldwide property catastrophe rates are down 20% to 25% over the same time last year. The lower frequency of major insured catastrophes means the discounts are fairly standard across all geographic regions.

General liability rates are dropping by about 20%. D&O liability rates are seeing rate reductions of 10% to 30%, London market underwriters said.

On the reinsurance side, underwriters are reporting drops of 20% to 30% for large industrial risks, often for the third year in a row. Coupled with lower attachment points and higher limits, buyers are getting broader coverage for less money.

At the same time, analysts are growing wary of an increased reliance on reinsurance programs and are scrutinizing London market companies' and Lloyd's syndicates' outward coverages.

"We are spending more time looking at what syndicates are buying, how they are buying it, and how they are expecting it to respond," said Philip Maidens, director of syndicate research at members agency Sedgwick Oakwood Underwriting Agents Ltd. "We are really concerned about the soft market encouraging the buying of more reinsurance."

The growth of multiline policies, which combine property and liability exposures in a single policy, is resulting in even greater discounts. The combined programs are generating rate reductions of up to 40%, compared with the separate costs of property and liability policies from previous years.

"Sophisticated risk managers know they can (package) all their exposures together and get a better price," said Timothy Stokes, an underwriter at Copenhagen Reinsurance Co. (UK) Ltd.

Mr. Stokes said primary market underwriters in London also are showing much more flexibility, including broader terms and conditions, reduced deductibles and wider wordings.

The competitiveness associated with the current market conditions also is driving London to reinforce the uniqueness and internationalism of its market.

Derek Stimpson, non-marine underwriter at Assicurazioni Generali S.p.A. (UK), said the biggest difference between London and other insurance markets is that London is "a true market where buyers can go from stall to stall."

The general consensus is that London is emerging from its recent troubles and is starting to re-establish itself as a leading international insurance center.

Ken W. Haddon, retiring chairman of the London International Insurance & Reinsurance Market Assn. and also retiring chief executive officer of AXA Reinsurance UK P.L.C., acknowledged that London has suffered some damage but said that is now seen in a different light compared with a few years ago.

"It probably has not got the same proportion of business as a few years ago," he said. "But it has re-established some credibility as a center of organization and leadership."

"London has bounced and is bouncing back as a marketplace," commented Aon's Mr. McKenzie. "There is lots of capital still finding its way into London."

"The Bermuda companies are buying into Lloyd's, and this is sending clear signs that London is still very much an international marketplace," Mr. McKenzie said.

The attractiveness of Lloyd's to the Bermuda insurers was highlighted in June by ACE Ltd.'s purchase of Tarquin Ltd., a holding company for Lloyd's managing agency Charman Underwriting Agencies Ltd. and corporate capital investor Tarquin Underwriting Ltd. ACE is the largest single investor at Lloyd's and now controls 9.2% of the market's capacity (*BI*, June 22).

EXEL Ltd. also has been upping its presence at Lloyd's. Its March purchase of Mid Ocean Reinsurance Co. Ltd. gave EXEL control of Brockbank Group P.L.C., a major Lloyd's managing agency (*BI*, March 23).

A number of non-U.K. insurance and reinsurance organizations still are looking to invest in Lloyd's, according to Sir Laurie Magnus, director of investment bank DLJ-Phoenix Ltd.

Julian Phillips, a consultant with the London-based risk management division of Tillinghast-Towers Perrin, said London has "clawed back" some of its reputation.

"London has had a shock and has taken action," he said.

Mr. Phillips said the problems at Lloyd's have largely been addressed and that there is now a greater emphasis on improved efficiency and better customer service throughout the London market.

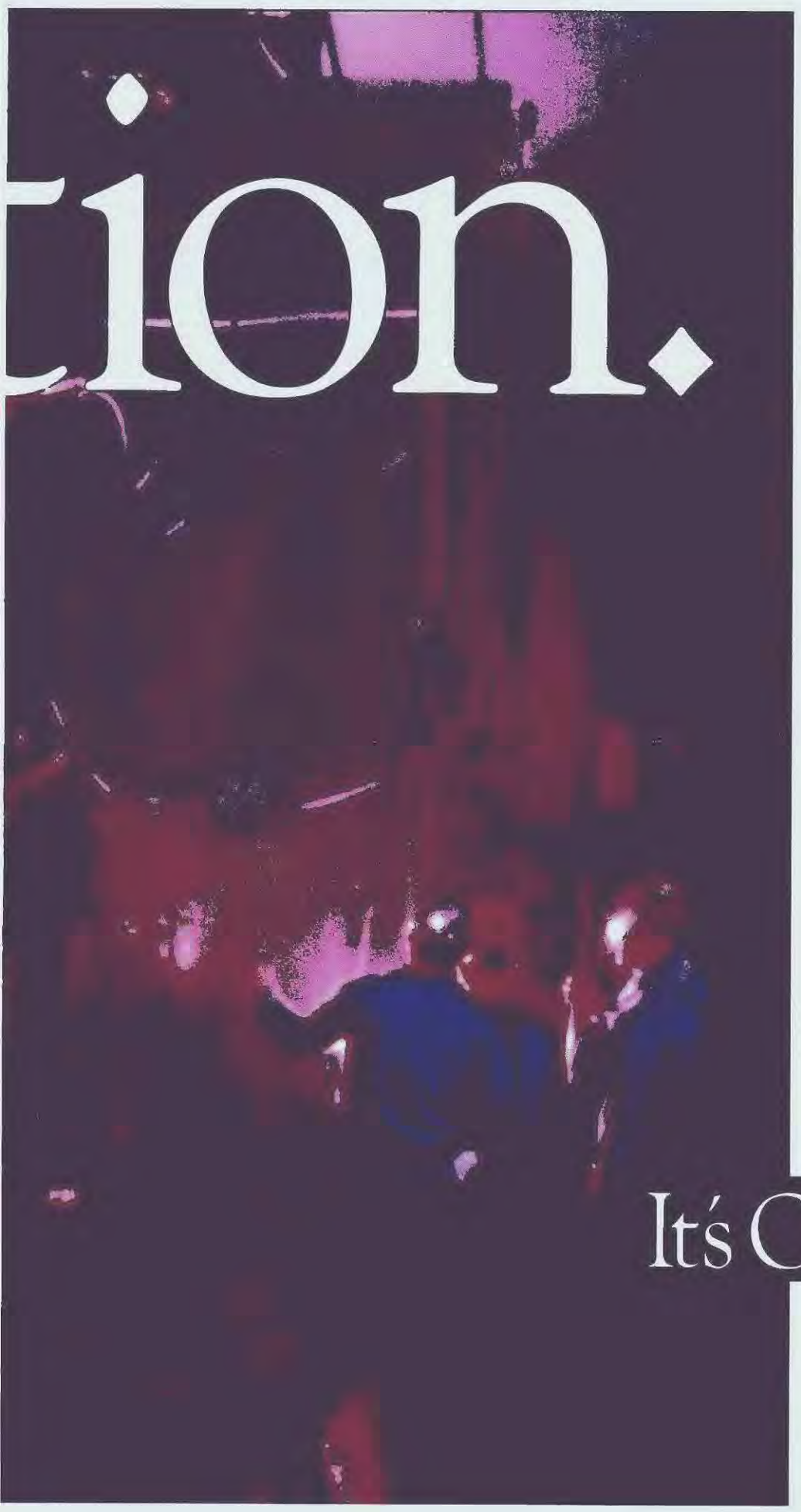
U.K. risk managers have never shown much inclination to move away from London, he said, and European and U.S. risk managers now are happy to use London again.

"Three years ago, it looked like London was starting to lose a lot of business," Mr. Phillips said. "That position has, at worst, stabilized and, at best, is gradually recovering."

London is looking to further rebuild its reputation through the merger of its two main trade associations, LIRMA and the Institute of London Underwriters.

The merger, which will create the International Underwriting Assn. of London, is expected to be finalized by next year. It will result in the world's largest association for international insurers and reinsurers, with an estimated 110 member companies with offices in London and 80 associate members from 40 countries.

See **London** *on next page*





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London

Continued from previous page

Marie-Louise Rossi, chief executive-designate of the IUA, said the merged association will be "uncompromising international in outlook."

While it appears that buyers are returning to the London market, they are also pleased with the market's move away from annual policies.

David Ketley, chairman of the Assn. of Insurance & Risk Managers, thinks the trend toward three-year policies is a reaction by underwriters to the soft market conditions and the demands of increasingly sophisticated buyers.

"Buyers would much rather smooth out their risks," he said. Three-year policies are also a way for underwriters to keep business in and "ride out" the current market conditions, Mr. Ketley said.

But Mr. Haddon of AXA Re said underwriters in a less buyer-friendly market would resist three-year policies.

Tillinghast's Mr. Phillips said insurers have "learned how to become comfortable" with multi-year programs. He said there has been a shift to an increased scope of coverage in London.

"We are seeing a building-in of risks, especially in these multi-year, multi-line programs, that might have been very difficult to insure—things like product guarantee and recall that have always been restricted," Mr. Phillips said.

AIRMIC's Mr. Ketley said that wider terms, more flexibility on exclusions and more individual tailoring of policies are coming from London underwriters.

One initiative that aims to foster such innovation is ACE U.K.'s new service company, ACE Underwriting Services, launched in June.

The new company allows brokers to place business with Lloyd's without necessarily having Lloyd's broker status. It also will take over much of brokers' administration, such as policy issuance, bringing down brokers' costs.

Rob Page, ACE U.K. marketing director, said the service company is a response to brokers' demands for more flexible and responsive services and easy access to the Lloyd's market.

ACE is not alone in Lloyd's at looking to new facilities and products to extend its customer base. According to Sedgwick Oakwood's Mr. Maidens, new product lines have been developed by almost all Lloyd's syndicates, and many are increasing the maximum lines they can write on risks in an effort to boost premium income.

Despite such actions, some analysts are predicting that Lloyd's syndicates across the market will write only half of its approximately £10.1 billion ($17 billion) capacity this year and that the subsequent results will be lean. "We expect the market to break even, or make a small profit off its investment income" if current conditions prevail, said Mr. Maidens.

But while these high capacity levels continue and losses remain low, there is no possible end in sight to the current soft market, said Steve Lloyd, underwriter at Bankside Syndicates Ltd.

While some underwriters are taking a flexible approach to the current market conditions, others are making "knee jerk" reactions, according to AIRMIC's Mr. Ketley.

"In a soft market, the concern (for buyers) is that some underwriters will lose sight of their underwriting principles," he said. Buyers "don't want to see underwriters taking on bad risks and then start seeing lots of claims flowing into the market."

Mr. Stimpson of Generali agreed that some London insurers are underwriting at a "superficial level" to maintain premium income.

"With rates dropping even further, there is still plenty of capacity, and one notes a certain desperation for income in some quarters," he said.

Mr. Stokes of Copenhagen Re agrees that some companies are writing on volume alone.

"At the end of the day, underwriters cannot just follow others that are putting rates down," he said. "Sometimes you have to say no. We are not afraid to turn business away."

Bankside's Mr. Lloyd has noticed a continued hunger for premium volume and market share. For large industrial risks, this has been exacerbated by the power the buyer now wields, particularly the ability to change brokers at will in order to get the best terms possible.

Competition in London is being heightened by the rise in alternative markets. For example, Singapore and local markets all are competing to share in international business that in the past would have naturally found its way to London. Miami, where Bankside recently opened a local office in the hopes it will generate more business, is becoming a popular access point for reaching Latin American clients.

The local market competition, in turn, has led to competition between brokers' local and London offices, again fueling the raging rate wars.

The first six months of 1998 have seen several emerging issues in the London market.

Plans by Lloyd's to introduce captive insurance syndicates into its market by early next year are generating much interest among buyers.

The debate over broker compensation also has been gathering steam in the United Kingdom. Buyers want greater transparency through more stringent broker regulation. They have lobbied the U.K. government in an effort to force brokers into more detailed disclosure over payments made by insurers for volumes of business placed with their companies and for services provided, such as technology. But brokers are unconcerned, insisting they have nothing to hide.

The effects of broker consolidation also are of ongoing concern to buyers.

AIRMIC's Mr. Ketley said he thinks buyers still are waiting to see the tangible benefits of broker mergers.

But Aon's Mr. McKenzie believes clients have been positive about broker consolidation. "We are delivering a better service at the appropriate cost structure," he said.

Risks surrounding the Year 2000 also are generating concern.

Michael Bartlett, vp at American Reinsurance Co. of London, thinks the London market is "getting its knickers in a twist" over the Year 2000 problem.

"The market doesn't know which way to squirm," he said. "(The problem) needs to be addressed."

AXA's Mr. Haddon said a single solution to the Year 2000 problem is almost impossible. "In the end, because we are an international marketplace, it is down to every underwriter to recognize that a decision has to be made."

"All underwriters are working on it but are at different stages," Mr. Haddon said.

Generally, London market executives agree the outlook is for more of the same. "There is absolutely nothing on the horizon that suggests a change," said Aon's Mr. McKenzie.

Copenhagen Re's Mr. Stokes thinks that even a catastrophe loss would not have the slightest effect on the market in general. "The world's reinsurers have made an awful lot of money since Hurricane Andrew," he said.

"The only way I can see some hardening of the market is through some kind of stock market activity so companies cannot rely on investment gains and have to rely on underwriting profits," he said. "Then we may see cutbacks on investment and reduced capacity." BI

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Buyers

Continued from page 1

broaden, as they have in the past two years," said Christopher Johnson, director-risk management at Campbell Soup Co. in Camden, N.J.

Larry Sokolowski, vp-risk and benefits at U.S. Cold Storage Inc. in Cherry Hill, N.J., is sorting through insurers' EPL offerings to find the one that's best for his 1,300-employee company.

"How long do you wait to jump on?" Mr. Sokolowski wondered about the growing movement to buy the coverage. "It's still too new; there's nothing to compare it to."

He said the coverage is "definitely more appealing now. I don't think there's a reason not to get it, especially for diverse, decentralized organizations."

Mr. Sokolowski had hoped to get the coverage in place by July 1 but, faced with so many options, he said it more likely will be later in the year before he makes a decision.

Burlington Industries Inc., a textile manufacturer in Greensboro, N.C., hasn't bought the coverage, but "we are going to take a serious look at buying some," said Gerard McCabe, director of risk management.

Mr. McCabe said "continued improvement in the employment practices area," in the form of more insurers offering the coverage, broader terms, and lower deductibles and premiums, is tempting buyers.

But not all risk managers are biting.

"We decided against it; I still think the cost is too high," said W. Michael McDonald, director of risk management at Tampa, Fla.-based Walter Industries Inc.

Mr. McDonald said insurers increasingly are offering the coverage in conjunction with directors and officers liability insurance under shared aggregates, another reason it was an unattractive option to Walter Industries.

RISK MANAGERS REPORT

Instead of buying the coverage, Walter Industries thinks its money is better spent on improving loss prevention in the form of stronger human resources policies and programs to prevent employment practices claims, he said.

Risk managers are in the market for other coverages as prices continue to sink.

Ms. Owen said Pizza Inn buys insurance for its corporate operations and recommends coverages for its franchised operations, without requiring it. "So we're looking for anything that will benefit our franchises."

She said Pizza Inn is looking into coverage that would respond to food contamination claims for the restaurant chain.

It's a coverage that is becoming more appealing, according to Mr. Johnson of Hormel. Competition among insurers to write the specialized liability coverage has intensified, he said.

That scramble has encouraged underwriters to drop a copayment requirement that buyers were forced to make in addition to the deductible. Along with broader terms, contamination coverage costs have fallen about 3%, Mr. Johnson said.

"We're looking at product recall," said David Hennes, director of risk management at The Toro Co. in Bloomington, Minn. The manufacturer of outdoor products currently self-insures that exposure.

"I'm finding it's more competitively priced than I would have imagined," Mr. Hennes said of product recall coverage. "The initial reaction from the market has been very encouraging, and we're looking more closely at that."

Also, because Toro's products are used outdoors, weather can affect sales. Mr. Hennes said he is "looking at the financial markets to see if there are deals that can be done" to protect against that exposure.

Mr. Johnson of Hormel Foods said he's "been asked to look at hedging" for the first time in his 12-year career.

Buying hedges could lessen some exposure related both to hog prices and the cost of grain to feed

Continued on next page

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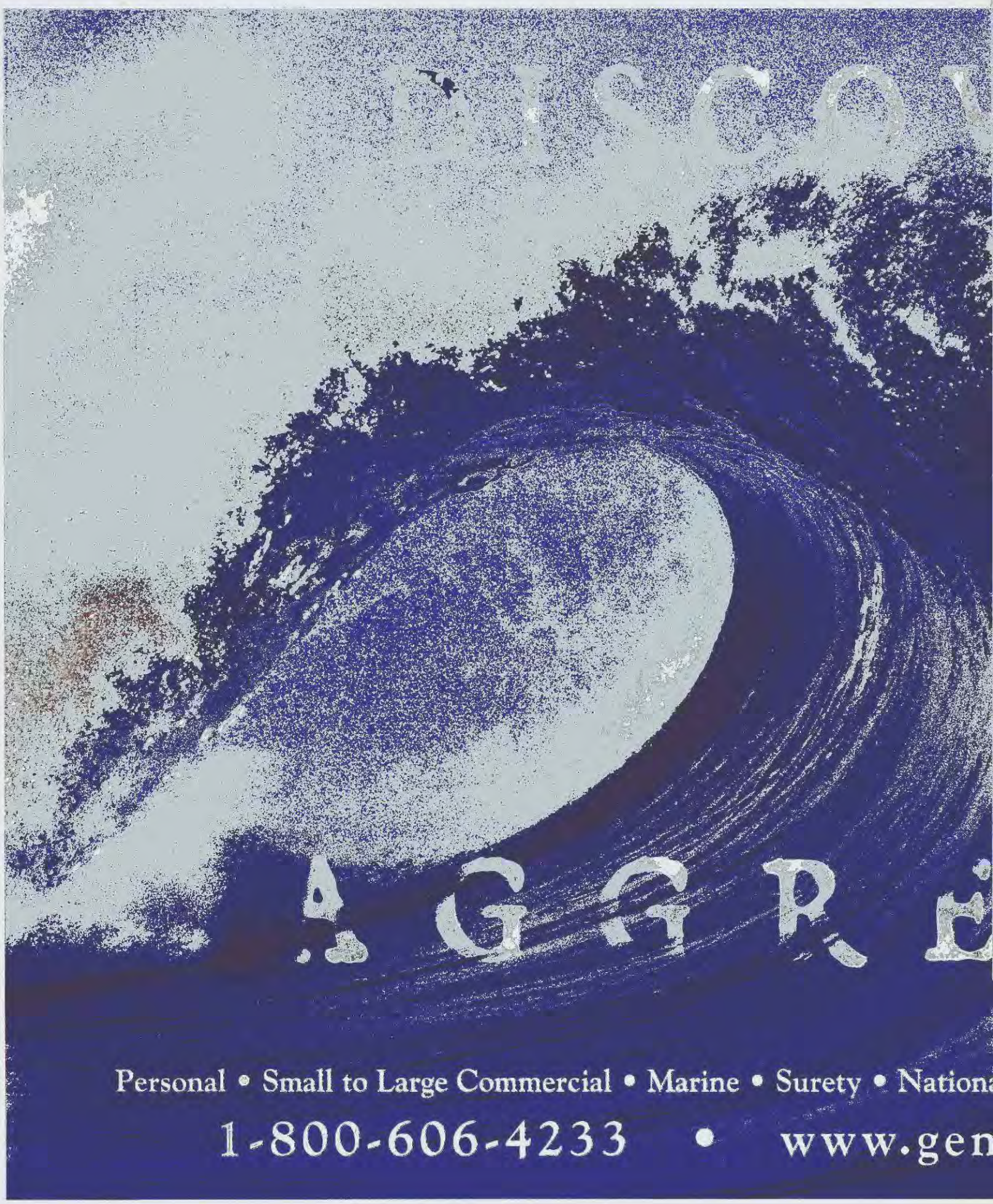
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Continued from previous page

turkeys, he explained. "Earlier this year, the price of hogs was way down, and we had contracts where we paid (farmers) over the market price."

Price breaks were available on other coverages Toro has purchased, Mr. Hennes pointed out. The company was able to get higher casualty limits at lower prices "in spite of a particularly large auto claim," he said.

Renewing with the same insurers, Toro was able to double its primary liability limits to $50 million, Mr. Hennes said. Toro carries coverage written in the Bermuda market above that amount. Altogether, coverage was about 15% less expensive this year for Toro.

Liability coverages were also less expensive for White Castle System Inc., a Columbus, Ohio-based restaurant chain.

White Castle self-insures the first $950,000 of its general liability exposure, and it buys a $50,000 layer of coverage above that from Nutmeg Insurance Co., a unit of Hartford Financial Services Group Inc. On top of that $1 million in coverage, various insurers write excess liability limits to $50 million.

"(Renewal) went very well; it is

'We had some poor loss experience from Hurricane Fran two years ago,' says Gerard McCabe.

a very soft market," said Richard D. Randall, director of risk management at White Castle. He said coverage costs at renewal were about 17% lower than a year ago.

Concern about potential Year 2000 computer problems are leading some risk managers to ask for three-year liability policies as a way to make sure they have coverage and to lock in terms that will remain unchanged when the new millennium begins.

Hormel locked in a three-year directors and officers liability insurance policy last fall to ensure that it had Year 2000 coverage for that exposure, Mr. Johnson explained. At the time, the company obtained a 30% reduction in annual D&O premiums.

Mr. Hennes of Toro and Mr. McDonald of Walter Industries used the same strategy when renewing D&O and other liability coverages.

Risk managers looking for property insurance coverage are finding continued low rates.

Mr. Johnson of Hormel said the market for commercial property insurance "is still very, very soft." His company's coverage, written in a highly protected risk policy runs through November 2000. But even during the policy period, underwriters extended a 10% premium reduction and an extra year of coverage. "We may see a slight decrease in premiums," said Bill Saliga, assistant director of risk management for White Castle. The chain buys property coverage for its corporate offices and self-insures the risk for its 316 company-owned restaurants.

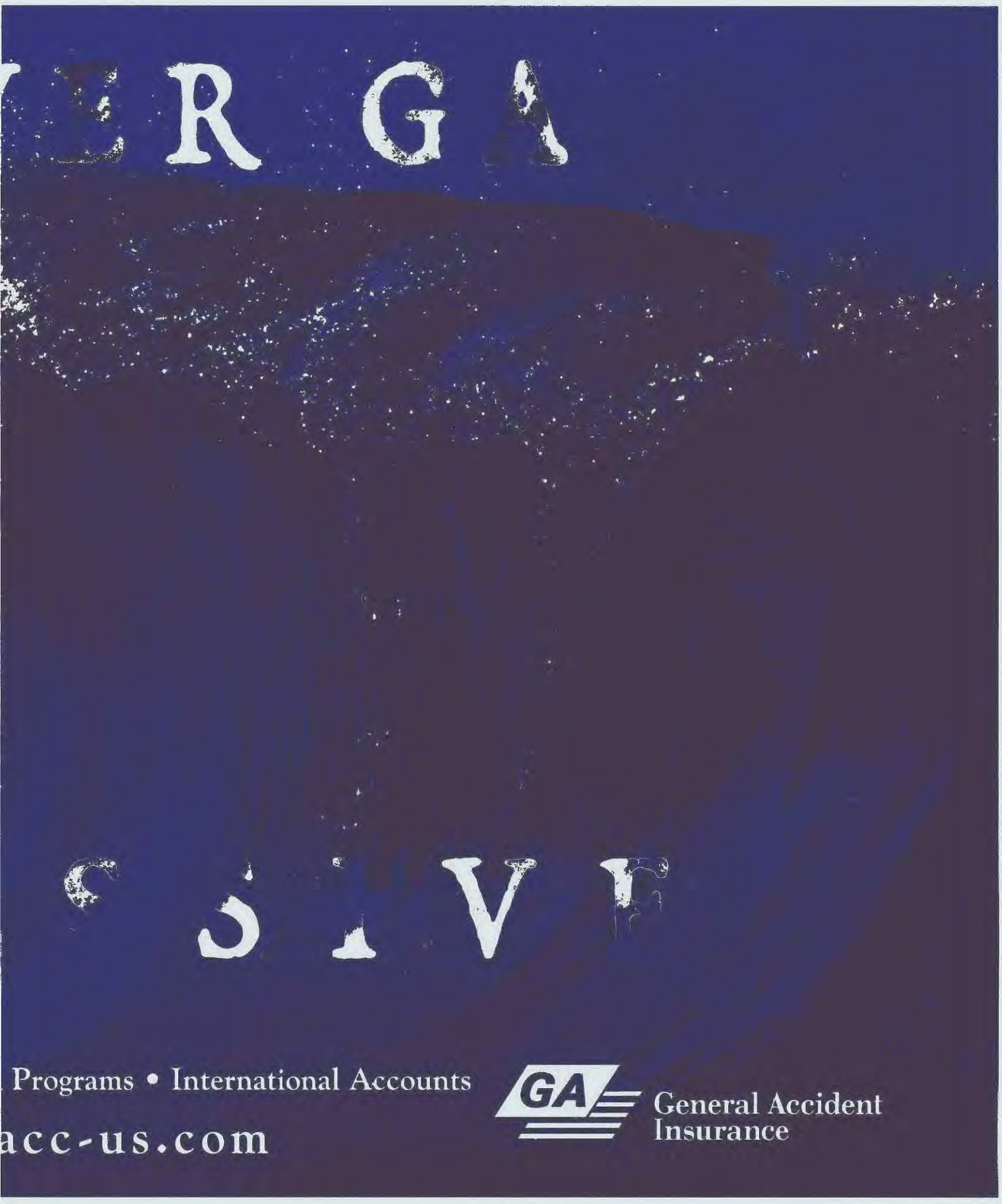
Quotes for White Castle's property coverage aren't in yet, but the market remains "pretty stable," Mr. Saliga said.

Even with a significant California earthquake exposure—the company has manufacturing sites for irrigation equipment there—Toro currently is paying much lower property premiums than under its previous coverage.

Mr. Hennes said that structuring Toro's property risks as part of a global program as the company expands worldwide has helped attract foreign reinsurers. Heading into the second year of a three-year program, annual coverage costs are about 40% lower than before the policy was written.

Mr. McCabe of Burlington Industries said he may see a slight increase in coverage prices for highly protected risks. While the market is soft, the manufacturer has suffered losses in recent years that could drive up its property insurance costs.

"We had some poor loss experience from Hurricane Fran two years ago," said Mr. McCabe. Claims totaled about $2.3 million for about 26 manufacturing or storage facilities damaged by high winds or flooding. BI



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Risk managers taking steps now to address Y2K problem

Plans include addressing suppliers' compliance status

By MICHAEL BRADFORD and MEG FLETCHER

RISK MANAGERS REPORT

Many risk managers are not waiting for the clock to tick down on the Year 2000 computer problem.

In addition to exploring coverage options for the risk, many are taking preventive measures to minimize their exposure.

The Year 2000 issue is "certainly the biggest" facing risk managers right now, said William J. Kelly, a managing director at J.P. Morgan & Co. in New York.

"I think the major firms have the resources to address it," Mr. Kelly said. But some smaller operations, especially those not subject to a lot of outside scrutiny, may not make changes in time, he said.

"You have a whole spectrum, from banks that are closely watched to others that are not subject to testing or audits," Mr. Kelly pointed out.

It's a "scary risk for us," Michael McDonald, director of risk management at Tampa, Fla.-based Walter Industries Inc., said of the Year 2000 bug.

Walter Industries operates foundries, coal mines, aluminum manufacturing facilities and other businesses heavily reliant on computer chip technology.

"We're about 70% there," Mr. McDonald said of a process to make sure all computers and chips recognize the year 2000 and function properly at the time. "Our objective is to be completely there by the end of the year."

A larger worry is whether Walter Industries' suppliers will be ready when the date changes, Mr. McDonald said. "We're not bringing on any new suppliers until they can certify that they are in compliance."

And, he added, the company is responding to customers' queries about Walter Industries' readiness, in part, by asking " 'What about you?' If they shut down, we have no one to sell our products to."

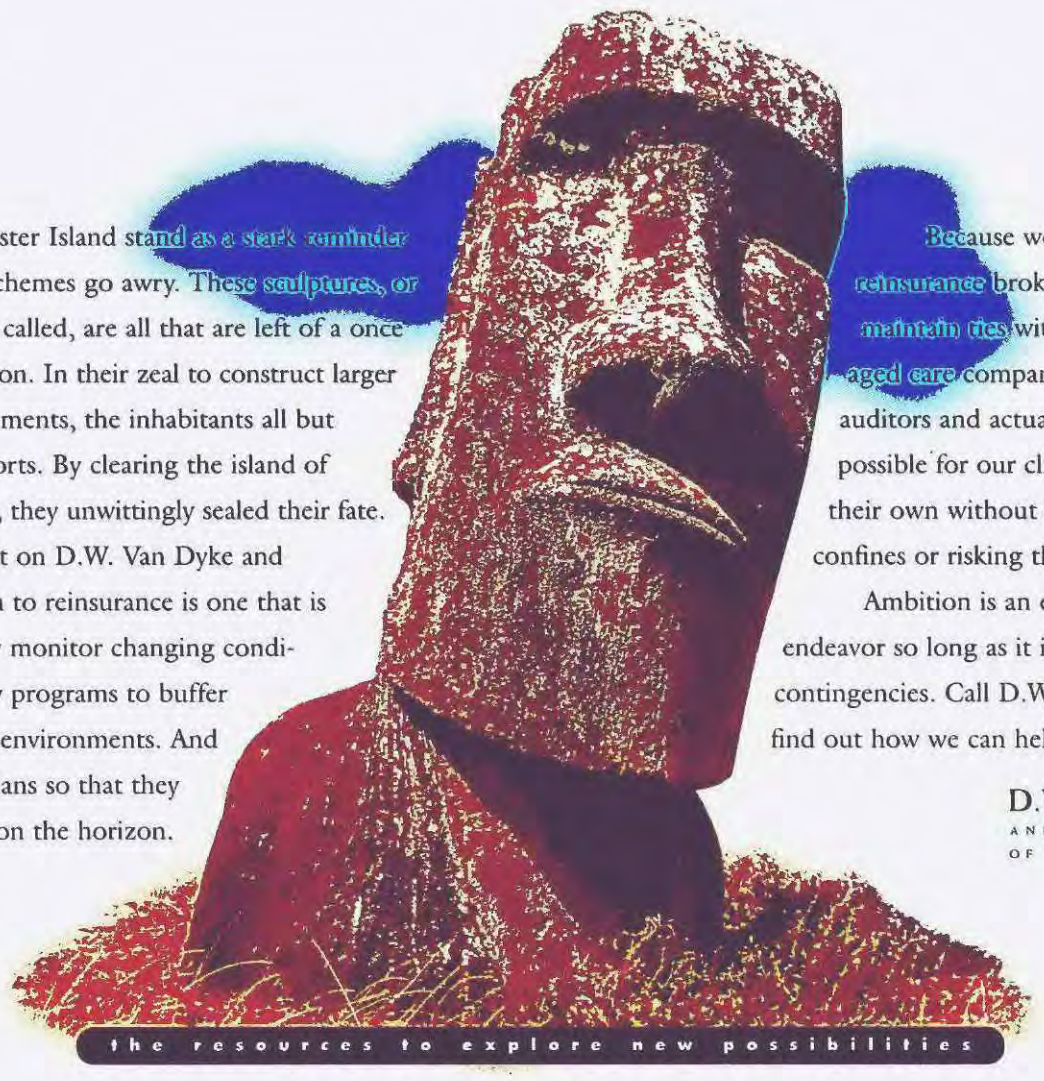
Burlington Industries Inc. also sent letters to vendors asking about the vendors' compliance status and plans to correct problematic software if any is found, according to Gerard McCabe, director of risk management for the textile manufacturer in Greensboro, N.C.

The Year 2000 computer problem "is a concern for all of us. The bigger issue is how insurers will respond," said Christopher Johnson, director-risk management at Campbell Soup Co. in Camden, N.J.

In recent months, several insurance companies have notified brokers and policyholders of the need to address potential Year 2000 problems (*BI*, June 29).

Year 2000 exclusion wording from the Insurance Services Office Inc. was made available to insurers April 1 (*BI*, May 18; Dec. 15, 1997.)

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Inside:

Educational seminars make agents more visible to customers Page 28B

Relating to a client's generation can help in forging relationships Page 28E

Holding on to talent and offering value among keys to brokers' success Page 28F

Seminars can help develop relationships

But agents, consultants agree focus should be on educational topics, not sales pitches

By JENELL TALLEY

Sponsoring educational seminars can help agents and brokers build relationships with existing and potential clients, as long as such forums avoid direct sales pitches, agents and consultants say.

"The financial services industry has been doing educational seminars for years, but they try to sell something," said Emily Huling, president of Selling Strategies Inc., a Terrell, N.C.-based consulting, speaking and training center that specializes in the insurance industry. "That isn't what it's about."

While the purpose of an educational seminar is not to directly promote or sell the company's products, the seminars can help agents and brokers attract new business, said Ms. Huling. The seminars increase interest in the host agencies and in their products. "I don't have statistics, but my clients tell me that interest grows, they retain business and make prospects clients," she said.

Seminar attendees benefit from having the opportunity to network with people in the insurance industry and gain information that can be useful to their businesses or themselves, said Ms. Huling.

Seminars delve into topics such as workers compensation, employment practices liability and other concerns of risk managers, Ms. Huling said.

Sexual harassment, safety and disaster planning are some of the workplace issues covered in recent seminars. Seminars also can center on issues of personal interest to the attendees, such as stress reduction and cardiopulmonary resuscitation.

Getting clients to understand the insurance industry, particularly how risk management works, is the objective of the seminars, said Mary M. Daniels, manager of safety and industrial hygiene at Trissel Graham & Toole Inc., an independent insurance agency based in Davenport, Iowa. Seminars "tie clients closer to us. They allow us to reach all clients, from the one-man contractor to the 1,500-man workplace," said Ms. Daniels. "It helps to form a team with them. We become part of their organization, not just another agency."

The information that TGT's clients have taken back into their workplaces from the seminars has increased safety and production and controlled losses, said Ms. Daniels. "They are an excellent business tool that helps keep the company's name in clients' heads and establishes good business relationships with them."

Five key ingredients make an effective seminar, according to Kimberly Paterson, president of Red Bank, N.J.-based consulting company Creative Insurance Marketing Co.:

• A good topic. There is no methodology for selecting seminar topics, Ms. Paterson said. Agents look for issues that clients and prospects may be interested in, get ideas from reading the newspaper and by keeping abreast of what's going on in their market and industry.

• Effective delivery of the content by an expert. "A lot of times someone from the agency staff with expertise on the topic will do it," said Ms. Paterson. The source may work for another company in the industry. Balance on the panel is important, she said. Speakers should not be only from the host agency.

• Hand-out materials that are relevant to the audience and reinforce the agency's image.

• Sufficient promotion of the seminar. One invitation is not enough.

• Follow-up. It is important to establish ongoing communication with the attendees and to provide a way for the attendees to evaluate the seminar.

"Nothing about the idea (of educational seminars) is terribly new," Ms. Paterson pointed out. "It has just increased in the last few years. Agents and brokers are extremely anxious to promote themselves. It's all just about marketing themselves."

Agents and brokers usually get in-house personnel to plan the seminars, said Ms. Paterson. "It's more typical, although using out-

Continued on next page





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Continued from previous page

side firms does happen. Most (agencies) feel they have the internal resources to do it themselves," she said.

Often a sales manager or public relations and advertising department is responsible for organizing the seminar.

"But it's a team effort," said Ms. Huling.

Many factors affect the cost of conducting a seminar, Ms. Paterson said. "If the (agent or broker) uses an outside firm for planning, it's more expensive. Are you serving a meal or just coffee, breakfast or dinner? Is it for a few people in a conference room or hundreds of people? Are you paying the speaker? What about promotion?" she asked.

Ms. Huling said her clients have told her that with invitations, food and drinks, the average cost of a seminar is $25 per person. In her experience, the agency pays for everything. "It's just like planning a party," she said.

Timothy McNelly, vp of Sedgwick of New York in Rochester, said the broker's experience in hosting seminars is that with the room charge and food, costs average $30 to $50 per person.

Ms. Paterson said different approaches can save costs. If in-house staff does all the preparation and doesn't produce elaborate materials, a seminar can be more economical. Smaller agencies that do not have a lot of resources can co-host a seminar with related companies that aren't competitors but could share the costs and contribute to the program development. Partners can bring different perspectives to add interest to the event. If program content is exceptionally strong, Ms. Paterson encourages agencies to charge prospective clients a nominal fee to cover expenses.

Besides cost, scheduling is another element of seminar planning that deserves careful thought.

"We've learned not to schedule seminars on Friday," Mr. McNelly said. "People are more interested in starting their weekends. Mondays aren't good, either. It's the first day and people are dragging. Wednesdays and Thursdays are best."

"We usually have the seminars in the morning, so if we have speakers or guests from out of town, we can use the remainder of the day to show them around," he said. Attendees are treated to coffee, danish and bagels.

Seminars set for mid-afternoon are likely to conflict with people's schedules, said Mr. McNelly.

The seminars last from an hour and a half to two hours and are held in a hotel near expressways convenient for those coming from other cities.

Because Sedgwick's Rochester, N.Y., office finds seminars a good marketing tool, the broker recently has decided to take "a more proactive stance" in conducting them, Mr. McNelly said. The Rochester team has hosted four so far this year and plans to offer two or three more before year-end. Corporate clients and other interested professionals, such as doctors or lawyers, get valuable information at no cost, he added.

Sedgwick's topics cover services available in the insurance industry, bring major issues to the forefront and discuss problems risk managers are facing, Mr. McNelly said. "We don't say that we have the answer, but we offer education" that can lead to a solution, he said.

Sedgwick is conscious it does not turn its seminars into selling sessions. "We don't have to keep saying how great we are," said Mr. McNelly. "The seminar should demonstrate our expertise."

Seminars are particularly helpful in enhancing an agency or broker's reputation, particularly among prospects. "Existing clients know us and expect expertise, whereas new clients may not realize that we have a depth of resources," so they become more eager to use our services, Mr. McNelly said.

"All agencies need to differentiate themselves from the competition," Selling Strategies' Ms. Huling said. Seminars and value-added services help make that distinction, she added.

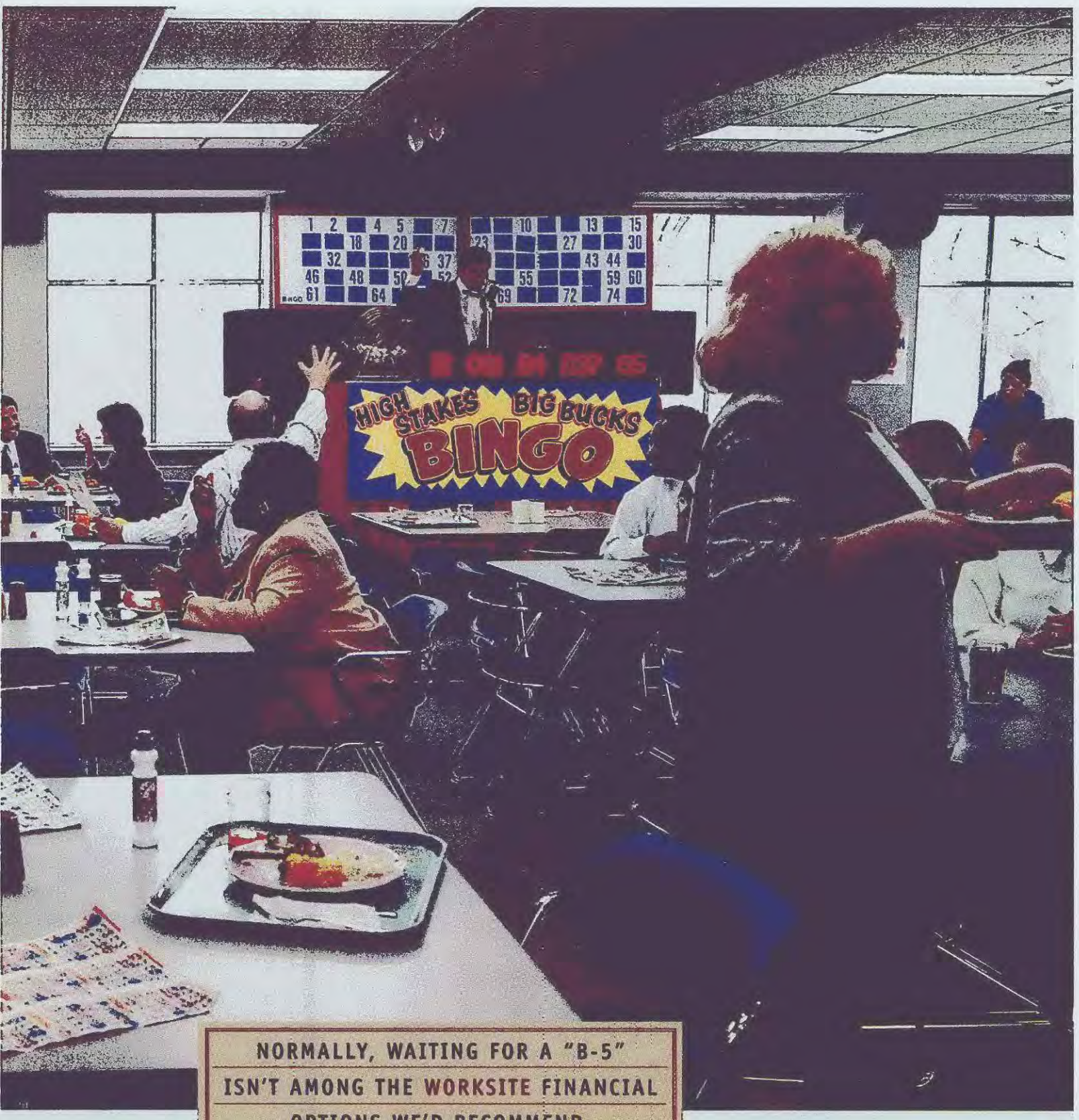
"We're trying to expand to smaller independent agencies in smaller towns so they can add value and compete with the national brokers and direct distribution centers," Ms. Huling said. "Since distribution is changing and there are so many alternatives for people who are commodity buyers, if the independent agency doesn't differentiate itself by adding value and business assistance, why even go to an independent agency?" she said.

Agencies should conduct seminars several times a year, but start small and make sure the topics and facilities are excellent, Ms. Huling said. She helps agents determine everything, from whom to invite and what kind of invitations should be sent, to what kind of evaluation the agency should use.

"It may be slow in the beginning," Ms. Huling said, "but the more (seminars) you do, the more people will come."

A seminar's attendance depends largely on its topic, said TGT's Ms. Daniels. "Sometimes we can fill a 200-capacity conference room," she said. On the other hand, the agency's lowest attendance was at an environmental issues seminar that drew 20 to 25 people, she

See **Seminars** *on next page*



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Seminars

Continued from previous page
said.

TGT also has monthly workshops that it holds in its boardroom. Workshops usually last an entire day and cover multiple topics. A typical workshop would cover accident investigation, fleet safety and hazard communication, Ms. Daniels said. Workshops are more of a one-on-one experience, so the agency limits the number of attendees to 10, she said.

TGT is planning several seminars this year. On July 23, its Sterling, Ill., office is having a seminar on payroll audits, the workers' compensation system changes, and accident investigation.

Audience evaluations are commonly used to measure a seminar's effectiveness. An evaluation should allow guests to list the topics they would like to see covered in the future and if they want to receive additional information in the mail, Ms. Paterson added.

Sedgwick solicits feedback on the overall tone of the seminar, what went well, what went wrong, the speaker's presentation, room conditions and asks additional interest areas, said Mr. McNelly. "This gives us leads for future seminars," he said. "They've gone over very well, which has a lot to do with pre-planning, choosing a good speaker and topic."

However, seminars are not for every agency, Ms. Paterson cautioned. A seminar must suit an agency's style.

"Some companies are hard-core; they pound the pavement" searching for sales and clients, she said. "Others are trying to position themselves in the industry, so it works well for them."

Seminars are "a long-term thing, and some people don't have the patience. This is a good vehicle, but you must put all the pieces together or you run the risk of having a major flop on your hands." BI

Agent: Name recognition biggest benefit resulting from hosting seminars

Seminars provide smaller agencies name recognition, says Brenda Medlock, a producer at McNeill-Patterson Insurance, an independent agency in Spartanburg, S.C.

"Our name gets out there even if people don't come to the seminars," Ms. Medlock said. "That would have to be the biggest benefit, but that's not why we do it. Our agency tries to educate the public about the insurance industry, not our services. We tell them ways they can reduce their insurance costs."

McNeill-Patterson has hosted three seminars in the past 18 months and is planning more for the future.

There is only one major drawback associated with the agency's



seminars, according to Ms. Medlock. "The only disadvantage is the time that it pulls you away from daily agency activities," she said.

The 19-person agency has never hired an outside company to assist with planning seminars, though the idea is being considered, Ms. Medlock said. "We set it up from here, but we don't have a separate staff that does it, so (organizing seminars) pulls us as claims adjusters and risk control managers away from what we normally do."

Generally, two or three people organize the seminar. "Whoever we need to pull away (from their desks) to get it done, that's what we do," she said, adding that, as a producer, she usually is involved in seminar planning.

McNeill-Patterson distributes evaluation slips after its seminars, which it usually holds at country clubs. Among other questions, guests are asked their opinions of the seminars' topics and speakers. Guests also are asked to suggest future topics.

The agency said it does not monitor the number of clients the seminars have generated or retained. However, Ms. Medlock said she does not think seminars are effective in attracting new business, because few prospects attend. "Maybe it's because when they get invitations from insurance agencies that they haven't been dealing with, they are less likely to come," Ms. Medlock guessed. The seminars, however, are helpful in maintaining clients, she said.

"We have accomplished what we set out to do (with these seminars), but we would like to see a higher attendance rate," she said.

—By Jenell Talley

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Age is a personal lines issue: Brokers

Others say relationship-building is fostered by marketing to specific generations

By AMANDA MILLIGAN

When agents and brokers plan their advertising and marketing campaigns, very few talk about their audiences' generations, consultants and brokers say.

However, age can factor into relationship-building, one marketing executive says. Another adds that such a focus might help an agency bring in personal lines or small commercial business.

Commercial lines broker Arthur J. Gallagher & Co. is very focused on face-to-face selling to commercial clients, but targeting by age seems better suited to personal lines, said Greg Flanagan, vp-brokerage services for the Itasca, Ill.-based Gallagher.

"We have niches and target markets that we aggressively pursue, but they are more a business segment," Mr. Flanagan said. "We don't sell on any age basis."

Also, some say the process of gathering information such as the buyer's age would be costly and labor-intensive.

Automation is helpful, especially for personal lines segmentation, said George Nordhaus, chairman of Insurance Marketing & Management Services in Los Angeles, but the data collection necessary to target commercial lines clients by age "would just drive you absolutely nuts." Because of the soft market, he said, "Agents are really struggling. It's so competitive, and they don't have time for this."

"Do we have generational or age-related strategies?" asked Frank Huffman, director of communications in the Memphis, Tenn., office of Sedgwick Group P.L.C. "The answer would be 'no.'...There may be an age dimension, but we don't sort it that way. We do try to look at interests of our clients."

But others, such as Kimberly Paterson, president of Red Bank, N.J.-based Creative Insurance Marketing Co., said that part of the relationship-building process involves acknowledging the likes and dislikes of the audience, which often are factors of age.

"We're people first," said Ms. Paterson, who is based in Boston. While she agrees that age considerations aren't typically involved in commercial lines marketing, she noted that "as a salesperson, my whole challenge is trying to relate to the person."

Relating to buyers of insurance isn't always an easy task, however.

Ms. Paterson said, "Now you can theoretically have people in the work force ranging from baby boomers to Generation Xers to seniors....You can't have 'one size fits all,' because you will fail."

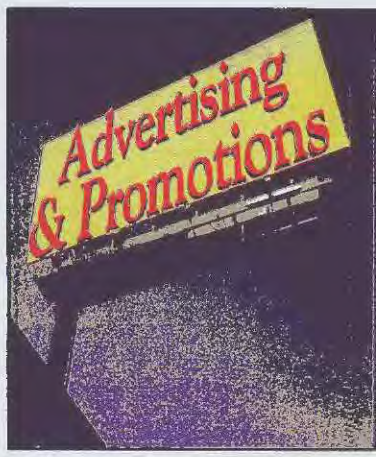
It takes a very different approach to reach Generation Xers than baby boomers, and "a lot of it is how they process information," she said.

Xers tend to be more visually driven than the boomers, which could mean a text-heavy message would be lost on the younger generation. Boomers, on the other hand, are more willing to read extensively on a subject, a characteristic of linear thinking. Xers, who grew up under the influence of the computer revolution, are more inclined to want to access information randomly rather than taking the orderly, linear approach.

"That really impacts how you sell to them, how you educate them," Ms. Paterson said. "Anyone that's in business today has to be geared up for providing information how people want to receive it."

For some, that means the text-heavy brochure is a winner, and for others, the desired information is communicated electronically.

"The younger buyer thinks in terms of sound bites and has a shorter attention span," said Mr. Nordhaus, noting that the average age of an insurance agent is about 50. The age gap between the agent and the buyer can stand



in the way of an effective marketing campaign, because the 50-year-old typically doesn't think

See **Generations** *on next page*



Generations

Continued from previous page
with the mind-set of the younger consumer.

The diversified workforce demands marketing and advertising innovation, but Mona Carpenter, president of Marketing Systems Ltd., an insurance marketing consulting firm in Dallas, said that in the past, the insurance industry has not made creativity a priority. While some insurance agencies may believe it is cost-prohibitive to hire an advertising agency, there are alternatives to the Madison Avenue shops.

"I've seen some art students in college create some incredible logos and product designs," said Ms. Carpenter, adding that for $300 to $500, a college student could be hired to create everything from a new letterhead to a World Wide Web site. "You could spend thousands and thousands, but I don't really think it's necessary."

Ms. Carpenter acknowledges that for commercial agents, it is difficult to market using an age technique. But for those with personal lines business or for those who sell commercial lines to small businesses, paying attention to generational differences can mean a lot.

For example, she urges the use of nostalgia when targeting baby boomers. But, she cautions, this age group does not follow the patterns of seniors at this age. Baby boomers do not consider themselves old. They are ambitious about retirement, but some will continue to work. Boomers have seen tremendous change, she said, and they aren't afraid of it.

Another difference in the generations, Ms. Carpenter said, is that a Generation Xer typically wants the insurance agent to be more proactive rather than reactive. "I think this is real important, especially for commercial lines if I'm insuring a young business," she said.

Generation Xers have more choices and more disposable income than any other generation. While this makes their business attractive it also means they are more willing to shop around if not fully satisfied with their initial choices. If an agent or broker helps the young business owner feel confident in a purchasing decision, then, combined "with their follow-up, they will have a very loyal customer long term," Ms. Carpenter said.

Moreover, this link with the young customer is crucial. "Even though there is fierce competition in commercial insurance, the incumbent always has the upper hand," she said.

Jim Sterne, president of the Santa Barbara, Calif.-based Internet marketing strategy company Target Marketing, said his strongest advice for generation-targeted marketing is to come up with a standard pitch and have someone of the targeted generation review it to ensure that it's in an appealing language and tone.

"That will personalize it generationally," he said. BI

Targeting, niches, people keys to success: Speaker

By SALLY ROBERTS

If brokers want to succeed in commercial lines insurance in the future, they need to target specific segments, provide value-added services and retain the best talent, a consultant says.

Despite such market obstacles as intense competition, rapid consolidation and soft insurance prices, there are many opportunities today for brokers to succeed, contends Frederick H. Eppinger, a principal and insurance practice leader in the Boston office of management consultant McKinsey & Co.

"It's a tough market, but there is an enormous amount of opportunity, because there is an enormous amount of need," Mr. Eppinger said. "There is a need for risk management services and a need for advice. The world is not getting less complicated; it's getting more complicated. So if you add value-added services and you have distinctive positions in the marketplace, you will grow."

"I don't know if bigger is better," he said, referring to increased consolidation among brokers. "But I do know the people who win the war on talent will be the winners."

During a session of the National Assn. of Insurance Brokers meeting held in Colorado Springs, Colo., last month, Mr. Eppinger described the current state of affairs in the commercial lines market and outlined what he thinks brokers must do to succeed in the future.

Mr. Eppinger said commercial lines pricing in all lines has decreased an estimated 35% since 1988. And, he said, based on numerous case studies from 1994 through 1997, there have been tremendous decreases in prices on a same-exposure basis with no apparent reduction in loss costs.

He blames the soft pricing environment in part on buyers who continue to self-insure and find alternative ways to transfer risk from the traditional market. "People who don't want to extract capital from the industry have created a tremendous overcapacity, and that

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overcapacity has caused a lot of irrational pricing," he said.

Furthermore, buyers have become more sophisticated and are demanding more services from brokers, he said.

"Where are we as an industry?" Mr. Eppinger asked. "We are in a pressure cooker," he answered. Brokers face pressure not only from the difficult market and from more sophisticated and demanding customers; they also have the added tension of insurers trying to go direct with reinsurers and customers, he said. "Insurance brokers are caught in the middle of the sophisticated customer and underwriters, who are consciously squeezing every nickel out of the market."

Consolidation is one result of the current market.

"This has not been a normal time," Mr. Eppinger said of brokerage consolidation. While brokers say the reasons behind the connections have to do with economies of scale, he pointed out that consolidation also "clearly increases the leverage brokers have with markets." Mr. Eppinger questioned the efficacy of this strategy, however, if cost and leverage alone are the reasons behind the associations.

"It's a great short-term strategy," he said. In the long run, however, "it's not going to work." Insurance "is an industry of scale of skill and executing distinctive value added," he explained. "If scale is used to create distinctive positions in segments with distinctive value added, then you've got something. But if it's about infrastructure, cost reductions and leverage, that is going to go away, because insurers are not going to stand back and let it happen"; they are concentrating on targeting specific segments.

> *'When I see all the upheaval in the industry, I see money to be made. This is a day of opportunity.'*
>
> —Frederick H. Eppinger

Despite what Mr. Eppinger calls "all the upheaval' in the industry, there are opportunities, he told brokers.

"I think what you're going to have is more sophisticated clients that pick and choose value-added services," he said. The traditional way of doing business does not work any more. In fact, "if you look at just the traditional services brokers provide and they did nothing more and didn't change, the brokers not only would see flat growth, but they would see between 10% and 20% decreases in revenues," Mr. Eppinger said.

"When I look at all the upheaval in the industry, I see money to be made," Mr. Eppinger said. "This is a day of opportunity, because the traditional way of doing things doesn't work."

Mr. Eppinger pointed out some of those opportunities he sees:

• **New and uninsurable risks.**

In a number of risk management case studies from a variety of different industries, 80% of the risks talked about are uninsurable today, Mr. Eppinger said. He admitted he is unaware if those risks would be considered good. "What I do know is that people are going to be pushing the edge here," he said. "For people that either push the edge of what's insurable or push the edge of what's uninsurable today, there is a real opportunity to make money."

• **Capital markets.**

"We all know it's going to grow about two to three times the traditional growth of self-insurance and other alternative risk products, but the question everyone asks is, how much and when?" Mr. Eppinger said. "There's a lot more talk than action right now," he observed.

However, what Mr. Eppinger described as intriguing is the "feel of it now." "We are closer to something real, particularly with securitization," he said. At least where mortgage banking is concerned, Mr. Eppinger sees the growth of securitization as initially driven by some need for capital; securitization continues to grow because of the cheaper cost of capital.

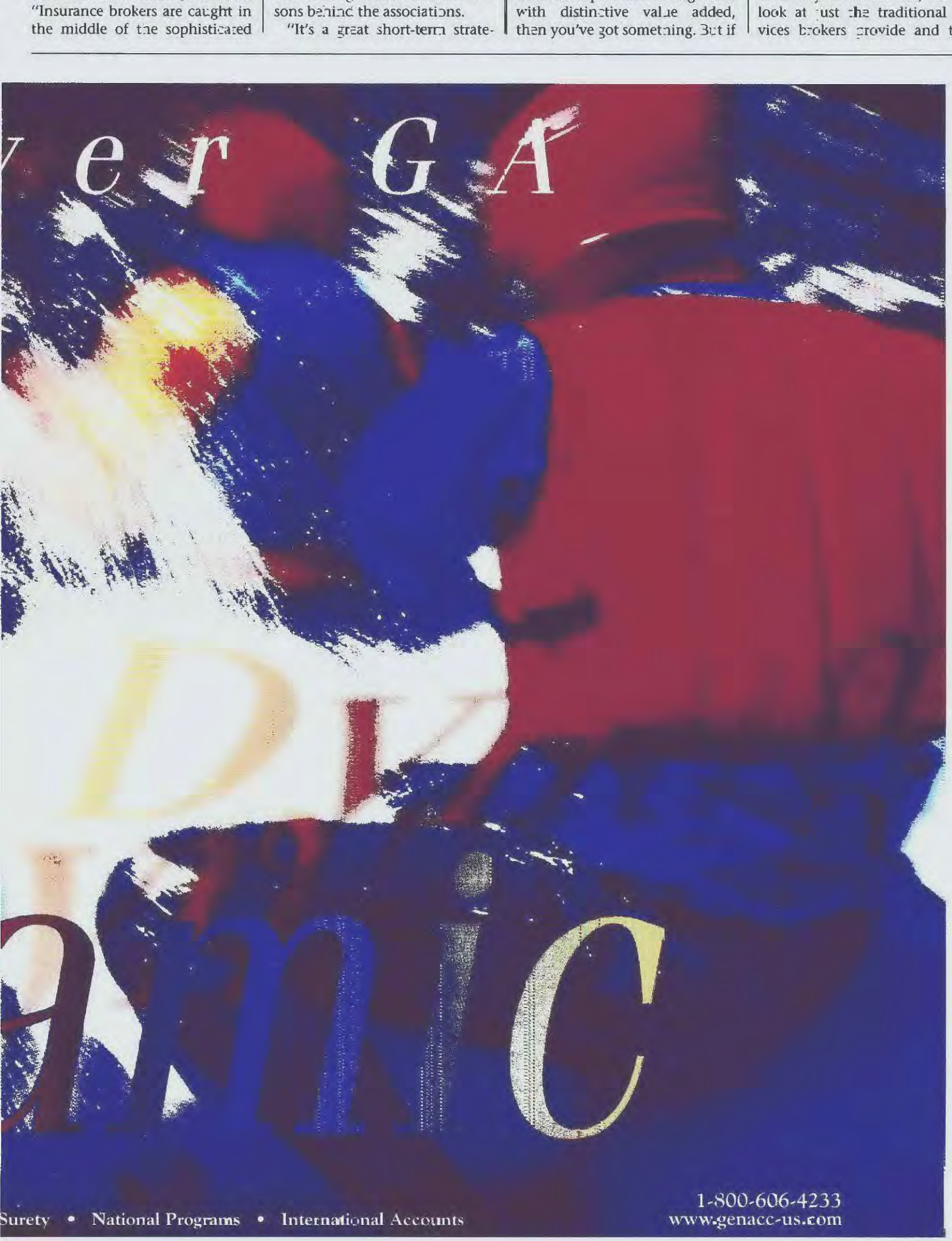
"What's interesting with (risk) securitization, if some event does occur, we could see a real growth in this market," he said. Mr. Eppinger added that United Services Automobiles Assn.'s $477 million cat bond issue in June 1997 was an indication that, despite the opportunity to have sealed a cheaper deal in the traditional market, USAA was "trying to make a market to prepare for that day."

• **Globalization of the world economy.**

Mr. Eppinger estimates that 23% of the world's industries are globalized, 15% are accelerating in that direction and that the rest are in the early design days or have no globalization plans. "More and more, the skill of handling global risks is going to become more important," he said.

"As manufacturing goes to emerging countries and the cost of risk follows," participating in that movement will mean "great growth," Mr. Eppinger said. While every emerging country is different, "the tremendous growth opportunity i

See **NAIB** *on next page*



NAIB

Continued from previous page
significant," he said.

Given the opportunities in the market, Mr. Eppinger said that, overall, winners in the commercial brokerage market will be those that retain the best talent. "The battleground for winning is about attracting the best and brightest talent," he said. "My fear is that the industry trades people that are good in the old game for people that aren't really good at the new game."

To change this, Mr. Eppinger suggests brokers instill a pervasive mind-set within the organization that fosters development of talent. Brokers also need to inspire the right behavior and hold people accountable for hiring the most talented people for key leadership spots, he said.

Five years from now, there will be a lot of winning brokers, Mr. Eppinger predicted. Those winners will have some common characteristics, he said. For instance, they will be focused on winning in targeted segments, they will have excellent knowledge and share information around the country and the world, and they will position themselves with appropriate cost structures for the markets they serve.

Additionally, he said, they will act more like consulting firms, and they will have a portfolio of relationships to draw on to add value for the customer.

"There will be some very, very successful companies," Mr. Eppinger predicted. "The industry will never go away from the notion that it is a game of inches. It will always be a game of execution." He said the important question is, "Can you combine some strategic and bold move that positions yourself to have a better shot at excellent execution?" BI

New Sedgwick-backed network will couple trading and coverage

By MATTHEW MacDERMOTT

A new electronic commerce initiative, backed by broker Sedgwick Ltd., will give international traders the opportunity to buy and sell goods and arrange cargo insurance coverage on the same electronic network.

The initiative, expected to be operational next year, will be the world's first combination of global electronic trading and insurance services, according to Tony Richards, head of marketing services at Sedgwick Ltd. of London.

He said Sedgwick is making a "rolling investment" in Full Service Trade System Ltd., a privately held company based in Bermuda that is the operator of the recently launched international TradeCard network. Sedgwick's role in the project is to establish underwriting services and act as a claims administrator for the network.

Mr. Richards said other insurance-related electronic commerce initiatives—such as the World Insurance Network, of which Sedgwick is a founding shareholder—are focused only on insurance and do not have the wide business scope of TradeCard.

"There is no conflict of interest" between TradeCard and other electronic commerce initiatives, he said. "Our position is to get as much hands-on experience in this area as possible."

The TradeCard concept was conceived by the World Trade Centers Assn., one of the world's largest associations for international trade, based in New York and represented in 97 countries.

The TradeCard network allows subscriber companies to buy and sell goods directly from their desktop computers through an electronic network provided by leading EDI supplier General Electric Information Services. A range of finished goods, such as clothing, furniture and machinery, are being traded on the network. The first transaction on the TradeCard network, a shipment of baby strollers, was conducted between companies from Taiwan and the United States on May 15.

The network allows buyers to create and send an electronic purchase order. Once the terms of the transaction are agreed upon, the order is digitally signed. The seller or freight forwarder then creates electronic shipping documents.

There are no limits to what can be bought or sold on the network, which is open to small- to medium-sized traders, as well as large multinationals.

Mr. Richards said Sedgwick has been working for the last six months to arrange underwriting capacity for the network. He said Sedgwick has lined up two lead

See **Trading** *on page 28J*

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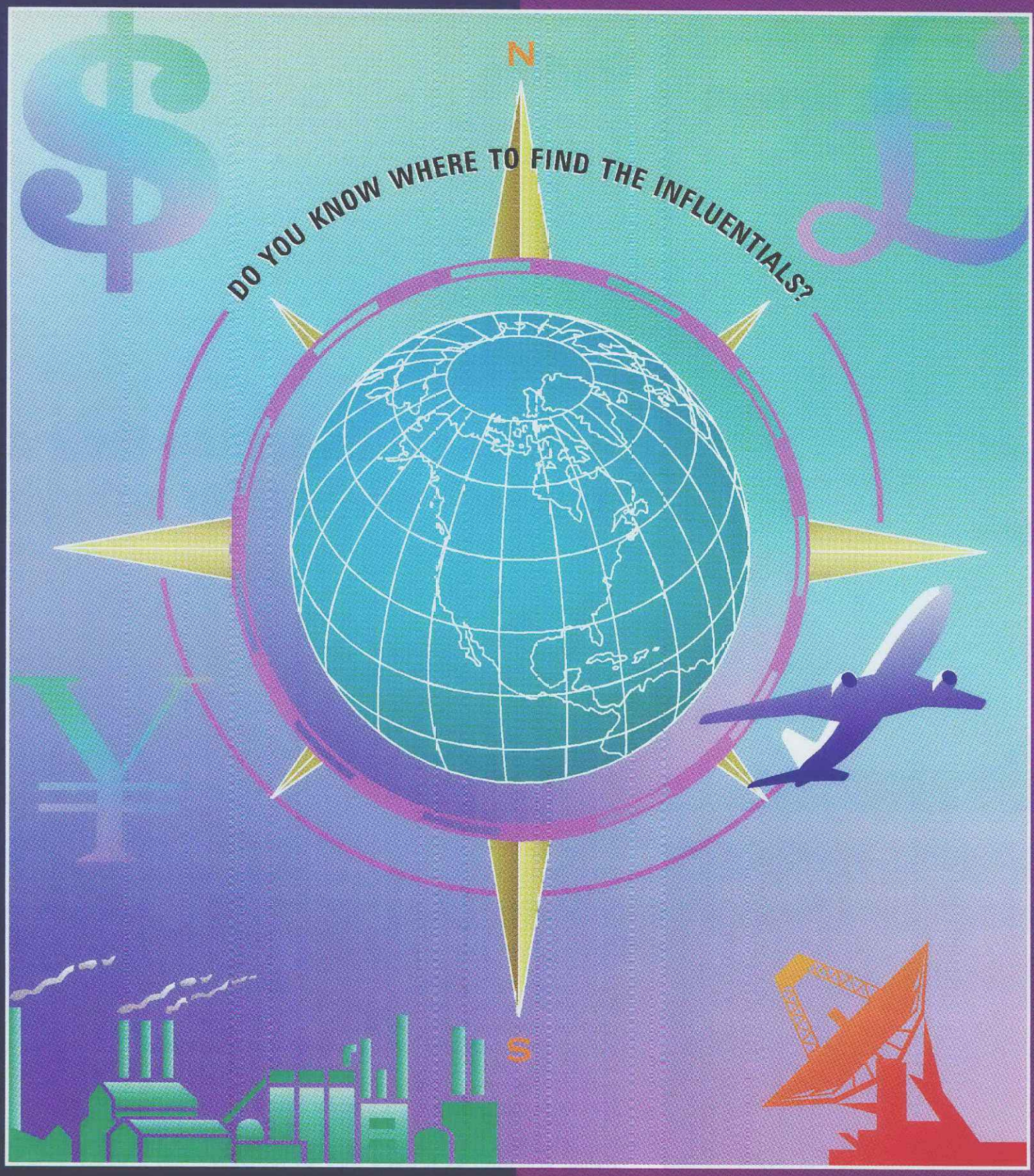
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Alternative site

PHILADELPHIA—Alternative risk financing consultant Commonwealth Risk Services L.P. recently launched a new World Wide Web site designed to be a one-stop source of information for agents and brokers on the alternative market.

Commonwealth Risk Services, based in Philadelphia, is a unit of Mutual Risk Management Ltd.

The site, located at www.accessmrm.com, includes a growing list of programs put together by managing general agents in conjunction with Commonwealth Risk, giving agents and brokers the ability to access competitive niche markets for their commercial needs.

The site also contains statistical information on the alternative market from industry analysts, industry rent-a-captive ratings, links to other industry sites about the alternative market and information on the products, services and capabilities of Commonwealth Risk and its parent company, MRM.

Information system

DENVER—Denver-based nonprofit workers compensation insurer Colorado Compensation Insurance is offering agents a World Wide Web-based customer information system.

The new extranet, named CCIAgentlink, went live in May, offering 24-hour-a-day service to CCIA's 60 Colorado-based agents.

The site provides agents easy access to policyholder information, simplifying communications between CCIA and its agent partners.

By logging on to the site, for example, agents can check the status of a billing installment, monitor the progress of a claim, run reports to summarize policy and claim data, and exchange electronic mail with CCIA underwriters and adjusters.

Agents with access to the Internet need only use a user identification and password to access the Web site.

In addition to a user ID and password, the CCIA implemented a sophisticated computer firewall, and all data between customers and CCIA is encrypted.

Rob Norris, CCIA's chief information officer, said CCIA has had "overwhelming positive feedback" from its agents regarding the extranet and that most of the agents enrolled within the first month of installation.

By this fall, the second phase of CCIAgentlink will be rolled out, Mr. Norris said.

The plan is to "move more toward online quoting and some online binding capabilities to larger clients."

For more information about CCCIAgentlink, call CCIA Agent Services at 303-782-4192.

A/BT Briefs

Quicker coverage

SAN FRANCISCO—Members of Insurance Brokers & Agents of the West now can quote and submit applications for earthquake coverage via the Internet to Pacific Select Insurance Co.

The Web site, www.pacificselect.com, was designed to eliminate the time delays of mailing applications to the insurer and waiting for underwriting approval. IBAW member agencies can pre-screen, quote and issue earthquake policies quicker via the Web site.

By logging on to Pacific Select's Web site using a secure identification and private password, producers can enter risk information to develop a quote, get the risk location approved and save the completed application within the system for up to 30 days. At any point during the 30 days the risk can be submitted to Pacific Select with a click of a button, and within 24 hours, a policy and direct bill will be mailed to the policyholder.

"Traditional processing of applications through the mail and even faxing will be considered old-fashioned after using this Web site for policy issuance," James R. Watje, Pacific Select's senior vp and director of operations, said in a release.

Also on the site, policyholders can access real-time earthquake activity information in California and obtain earthquake safety and retrofitting information, detailed product descriptions and claims information.

AMS interaction

SAN ANTONIO, Texas—A World Wide Web site developed by AMS Users' Group allows clients of the agency management system provider to talk to each other over an electronic bulletin board by posting and receiving messages and querying information.

The site, at www.amsug.org, is divided into several sections, including information on the group and its activities; how members can become more involved; a members-only section, which contains the user-to-user bulletin board; information on various AMS products and services; and registration for various education offerings.

"For the first time, AMS users can talk to each other from one coast to another, seven days a week, 24 hours a day. This is the type of application that the Internet was designed for," Asa O. Pike IV, former AMS Users' Group president, said in a statement.

Roughly 11,000 independent insurance agencies use AMS Services' agency management systems. BI

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31 32 33 34 35 36 37 38 39 40 41 42 43 44 45
46 47 48 49 50 51 52 53 54 55 56 57 58 59 60
61 62 63 64 65 66 67 68 69 70 71 72 73 74 75
76 77 78 79 80 81 82 83 84 85 86 87 88 89 90
91 92 93 94 95 96 97 98 99 100 101 102 103 104 105
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Employers have reputations to uphold

Recent court decisions demonstrate that companies may be held financially liable for defamation of employees

By William C. Bruce

TWO RECENT DECISIONS in Illinois—one in federal court and one in state court—foretell a possible trend toward intolerance of workplace defamation and a willingness to hold the corporate employer responsible.

In the state case, *Gibson vs. Philip Morris Inc.*, the Illinois Court of Appeals confirmed a trial court judgment and an award of compensatory and punitive damages in favor of the plaintiff, a sales manager, on his complaint of defamation.

The plaintiff, Randy Gibson, was awarded $115,000 in lost wages and benefits and $100,000 for personal humiliation and mental suffering. In addition, he was awarded $1 million in punitive damages against Philip Morris, whose employees defamed the sales manager when they falsely accused him of selling company incentive items at a yard sale.

The plaintiff was employed by Philip Morris as a sales manager for six years. As such, he kept incentive items in his garage for distribution to his sales representatives. He was terminated, approximately five months after a new boss came on the scene, for "falsification and selling incentive items." The allegation of selling incentive items was based on two co-workers' statements to Gibson's new boss that they saw incentive items—Marlboro belt buckles—at a yard sale at the plaintiff's home.

The yard sale occurred about one year prior to Mr. Gibson's termination. The co-workers stated that they were at the plaintiff's home on the date in question and observed the belt buckles "near the vicinity" of items at a yard sale. None of the statements by the fellow employees established that any actual sale of incentive items occurred or that the plaintiff participated in the yard sale.

Philip Morris' defense was that the statements, even if defamatory, were not published outside Philip Morris; therefore, there was no defamation. The court agreed that Philip Morris had a qualified privilege for internal statements; because the company acted with malice, however, the privilege did not apply.

But what makes the decision most interesting is that the court went on to state that Philip Morris "improperly investigated the truth of the co-workers' statements." The sales manager's boss admitted he had failed to allow Mr. Gibson to explain the situation. Further, the boss had "passed the defamatory statements on to other corporate officials without discerning the truth of the statements."

In ruling in favor of Mr. Gibson, the court's words are telling: "Defendants failed to investigate (the co-workers') statements fully and acted with reckless disregard of plaintiff's reputation. The statements were not the result of an investigation but were gratuitous gossip maliciously conjured into a reason for discharge. This evidence supports a determination that the defendant Philip Morris' actions constitute actual malice, and we affirm the trial court's award of punitive damages."

It seems clear that the plaintiff's boss seized on some statements by gossip-mongering—and perhaps envious—co-workers who were all too willing to "deal dirt" on a fellow employee who had invited them to his home after a sales meeting.

Philip Morris was liable in this situation because it did not allow the plaintiff to defend himself. It also refused to provide Mr. Gibson with copies of the co-workers' statements and paid heed to just one side of the story.

The court's ruling makes clear that when an employer uses innuendo or negative information to make an employment decision and fails to conduct an even-handed investigation of the truth of that information, it can be held financially responsible for the resultant damage to the employee's reputation.

Issues similar to those in *Gibson vs. Philip Morris* also surface in the more recent decision of the 7th U.S. Circuit Court of Appeals in *Dawson vs. New York Life Insurance Co.* The plaintiff in this case, Ronald Dawson, was the general manager of New York Life's office in Corpus Christi, Texas. An agent in the office fraudulently increased the value of a life insurance policy and annuity for a customer. The agent enhanced the value from $100,000 to $1 million and then falsified the paperwork to withdraw money from the annuity to pay the higher premium, on which he received a much higher commission. Subsequently, the fraud was discovered, and New York Life was the subject of a $15 million punitive damage award in favor of the annuity holder.

Information about employees, even on government forms, is not automatically privileged, so it is important to watch what is said about departed employees, both in writing and at internal meetings.

The agent engaged in the fraud claimed that management had knowledge of and encouraged the practice of converting policies, "reassuring agents that if they were caught, they could simply apologize for a clerical error and restore the customer's policies." The only testimony that linked Mr. Dawson directly to the fraudulent activity was the agent's claim that Mr. Dawson had directed agents to "share their commissions so underperforming agents could be eligible for some of New York Life's benefits and incentives."

After the $15 million verdict in favor of the annuity holder, New York Life fired Mr. Dawson. Top officials of New York Life then had a meeting with all of the company's general managers. At the meeting, general legal counsel elaborated "on a pattern of unethical behavior in the Corpus Christi office" by "previous management." In addition, the managers' meeting and speeches were videotaped and mailed around the country for the purpose of training agents and employees. The videotapes contained some remarks that referred indirectly to Mr. Dawson.

New York Life then filed a Form U-5 with the National Assn. of Securities Dealers, as is required when a registered agent leaves a firm. In the space on the form labeled "reason for termination," New York Life recorded "failure to follow rules and procedures of New York Life Insurance Co." New York Life subsequently filed an amended U-5 indicating Mr. Dawson was the subject of a "consumer complaint." The company stated on the disclosure reporting page attached to the form that Mr. Dawson "allegedly condoned forgery of customer's name to pay $300 premium needed to convert term insurance policy to whole life, and allegedly informed persons who committed the forgery of customer's name to pay the $300 premium needed to convert term insurance to whole life and condoned other alleged forgeries."

New York Life subsequently filed a second amended Form U-5 involving the agent's fraudulent behavior and Mr. Dawson's supervision based on another customer complaint.

Mr. Dawson sued New York Life, alleging defamation based on the statements on the Form U-5 and attachments as well as those made at the managers' meeting. After a month-long jury trial, the jury awarded Mr. Dawson $200,000 for defamation on the first amended U-5, $100,000 for defamation on the second amended U-5, $1 million for the defamation at the managers' meeting, and $5 million in punitive damages.

New York Life appealed on the basis that, among other things, the jury instruction on reckless disregard of reputation was inadequate. Further, New York Life claimed it had an absolute privilege against a defamation claim for statements made to the NASD.

The court of appeals rejected New York Life's absolute privilege claim. The appeals court agreed with the lower court that only a qualified immunity existed for such statements unless Mr. Dawson could show that New York Life acted with "reckless disregard" of his rights.

The appeals court remanded the case for a new trial on the basis that the jury instruction on reckless disregard was incorrect.

What is the message from these cases? Employees at all levels are tiring of malicious gossip-mongering and the false or misleading statements that can damage a reputation or result in an employee's termination. Preserving an employee's good reputation is essential in an increasingly competitive, even nasty, workplace, where envious co-workers or disgruntled subordinates may use false and misleading statements to sabotage a fellow employee's career. Employees subjected to defamation, whether within or without the corporation, are no longer taking it lying down. And not only will the errant co-workers be challenged, but the company may pay as well.

Also, if a company decides to pick a scapegoat for a major blunder, statements made about him or her are at the company's peril. Information listed even on official government forms regarding the employee is not automatically privileged. It's important, therefore, to watch what is said about the departed employee, both in writing and at internal meetings.

Here are some tips to reduce employer exposure to the claims of defamed employees:

- Formulate a written company policy on office gossip and use it to create a corporate culture in which negative talk and rumor are not acceptable.
- Advise managers to be wary of the motives of employees who volunteer harmful information about their co-workers.
- Should harmful information about an employee surface, make sure a complete, careful and quiet investigation is performed. The process should be carried out by an objective investigating unit, such as the human resources or legal department, and not by a boss or coworker who might have a hidden agenda.
- Set the tone at the top. Most gossip wouldn't exist if someone weren't listening to it. When top management requires a gossip monger to support statements with facts or to keep quiet, lower-level employees usually get the message and quickly stop the negative comments altogether.
- If at all possible, try to ensure that once an employee leaves, even if not on good terms, nothing is said about that person. BI



William C. Bruce is a partner in the Hartford, Conn., law firm Mayo, Gilligan & Zito.

Risk managers, brokers 'in catbird seat' in surplus lines

Some wholesalers finding opportunities in soft market

By JOANNE WOJCIK

The opening line in Charles Dickens' "A Tale of Two Cities" aptly describes the current state of the surplus lines market: "It was the best of times, it was the worst of times."

It's certainly the best of times for buyers, but the worst of times for most wholesalers and surplus lines insurers, which are scrambling to get and keep business in a competitive marketplace.

"It's a buyer's market, and brokers and risk managers are sitting in the catbird seat," observed Bob Cohen, senior vp of United National Insurance Co. in Bala Cynwyd, Pa.

David Hartock, president and chief executive officer of wholesaler Swett & Crawford Group in Los Angeles, agreed. "Generally speaking, it's still very soft, and there's a ton of capacity," Mr. Hartock said.

"I'd call this market a surprising market because there's a surprise every day," remarked Marcus Payne, president and chief operating officer of wholesaler Crump Insurance Services Inc. in Dallas. "Just when you think it can't get any lower, it does."

He also pointed out that many admitted insurers are competing for what has traditionally been surplus lines business, such as specialty property and liability lines.

In fact, Mr. Payne says he's seen



rate reductions anywhere from 20% to 60% below last year's already bargain-basement prices.

Among the most significant reductions:

- Primary general liability is down anywhere from 30% to 40%.
- Lower-layer excess liability is down 50% to 60%, depending on the class of business.
- High-layer property catastrophe excess coverage is down as much as 30%.
- High-hazard liability coverage, such an environmental, is down as much as 50%. Mr. Payne said this is one example of business for which admitted insurers are competing with surplus lines underwriters.
- Commercial property is down anywhere from 20% to 60%, depending on the risk.
- Highly protected risk is down 10% to 15%.
- Directors and officers liability insurance is down 10% to 15%.
- Errors and omissions and other professional liability lines are down 5% to 15%.

"We just had a risk in the casualty department—structural steel manufacturers, which is a hard-to-place line—that last year renewed at a premium of $187,500 with a $75,000 SIR. This year, it went for $100,000 with no deductible," Mr. Payne recounted.

Crump also placed a property program for a large retail chain at half of last year's $4 million premium, even though "the losses were more than the renewal premium," he said.

But some wholesalers, including Evanston, Ill.-based Shand Morahan & Co. Inc., are taking advantage of the cross-selling opportunities the soft market has created.

"We're absolutely overwhelmed with new business, and we couldn't be happier with the way that the market is treating us," said Paul Springman, president of Shand Morahan, the underwriting manager for Evanston Insurance Co. He estimates new business submissions are up 40% from last year at this time.

"And we're up another 20% in the first six months of this year," he said.

Mr. Springman attributed most of the growth to the company's new underwriting approach.

"We've moved away from a product concentration where we were very rigidly divided within our underwriting division along product lines and shifted to a regional customer focus, where each one of our brokers has a single underwriter that they come to for all of their Shand-Evanston business," he explained. "We call that strategy 'Source One' because it's one underwriter, one fax number, one phone number—the equivalent of the Nordstrom's personal shopper."

"It gives us tremendous cross-selling opportunities. And when we make a strategic decision, such as we want to increase our rates in one particular area or de-emphasize one product line because of a problem or less of an opportunity, it gives us a chance to really push something new like employment practices liability that we're just selling like hot cakes," Mr. Springman explained.

The new strategy also makes it possible for underwriters to build relationships.

In some cases, Shand underwriters are going so far as to work directly with buyers to develop comprehensive property/casualty programs rather than sell insurance products piecemeal, according to Mr. Springman.

In fact, Shand used this approach in handling the recent coverage placement of an East Coast manufacturer of lab testing kits for animals.

"It came to us as a products liability account with a miscellaneous E&O component" for data processing exposures, Mr. Springman recalled.

"But in probing with the broker, the underwriter learned that not only did the insured manufacture these testing kits, they also had a veterinary clinic at their home office location and they had on staff an animal cardiologist and an animal oncologist and all sorts of clinical trials that they were performing," Mr. Springman said.

"So we were able to take the general liability form, pick up the products liability exposure, add on the miscellaneous medical malpractice exposure, pick up the malpractice for the veterinary

See **Surplus** *on page 34*





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Surplus

Continued from page 32

clinic, the malpractice for the cardiologist for the dogs and the oncologist for the cats, pick up the electronic data processor E&O exposure for the information that was being transmitted electronically and wrap this all into one cover," he explained.

"This is not the sort of product that you can go through the grocery store and just pick up off the shelf," Mr. Springman said. "They had six different policies from five different markets that we were able to put all into one contract with a common date and give them truly a one-stop shopping experience."

Many surplus lines insurers are providing risk management services to policyholders to attract and/or retain their business.

"We've developed services to make them better risks," explained Kevin Kelley, chairman and CEO of Boston-based Lexington Insurance Co., a subsidiary of American International Group Inc.

For example, Lexington has a toll-free number that buyers of its employment practices liability coverage can use to speak directly to attorneys on staff.

Supplying such services has enabled Lexington to improve its EPL retention rate, which Mr. Kelley estimates at 65%.

"We pioneered the product and continue to have the leading market share," he said.

But while Lexington may have been the first to introduce EPL coverage in the early 1990s, there are now numerous underwriters—some say as many as 40 companies—willing to write the product. It's a good thing, too, according to surplus lines marketers, because demand for EPL coverage is growing.

"There's so many new buyers coming into the marketplace that we're having a tough time just keeping up with the demand," said Shand's Mr. Springman, adding that this may be partly due to the fact that "we're starting to see our first batch of agents' and brokers' E&O claims coming from clients whose brokers did not advise them of the availability and the cost of EPL insurance."

Says Paul Springman, referring to the Year 2000 problem, 'We're preparing for a hurricane and hoping that it turns out just to be a mild tropical breeze.'

"We've found that the savvy wholesale brokers that understand what's going on in the rest of the marketplace are counseling their clients to take a little bit of that money that you saved in this soft GL market. . .and let's explore the feasibility of buying an EPL product," he said.

"We're seeing a lot more interest in EPL," concurred Swett's Mr. Hartock. While initially the demand was greatest on the East and West coasts, "we're now seeing more demand in the midsection of the country," he said.

Fortunately for buyers, employment practices liability coverage rates are coming down as a result of the newborn competition.

"EPL rates are down 10% to 25% from last year," Mr. Hartock estimated. "And limits are up to $150 million to $200 million."

The soft market is even having an impact on a traditionally hard-to-place line: California contractors.

"It's still relatively soft even though residential builders are difficult to write," said Carole Fleichman, senior vp at wholesaler Stewart Smith West Inc. in Glendale, Calif.

She believes that the California Supreme Court's 1995 *Montrose* decision that applied a continuous trigger to pollution cases, and which is now being applied to construction defect cases, may have actually helped insurers by creating some certainty about their exposure for the risk (*BI*, July 10, 1995).

"And a lot of carriers have put on *Montrose* exclusions," she added.

Despite the overall soft market, insurers in the surplus lines market are bracing themselves for the one exposure that has the potential of turning the market: Year 2000.

"There's a big fear in the industry how to underwrite this exposure if you don't exclude it," said United National's Mr. Cohen.

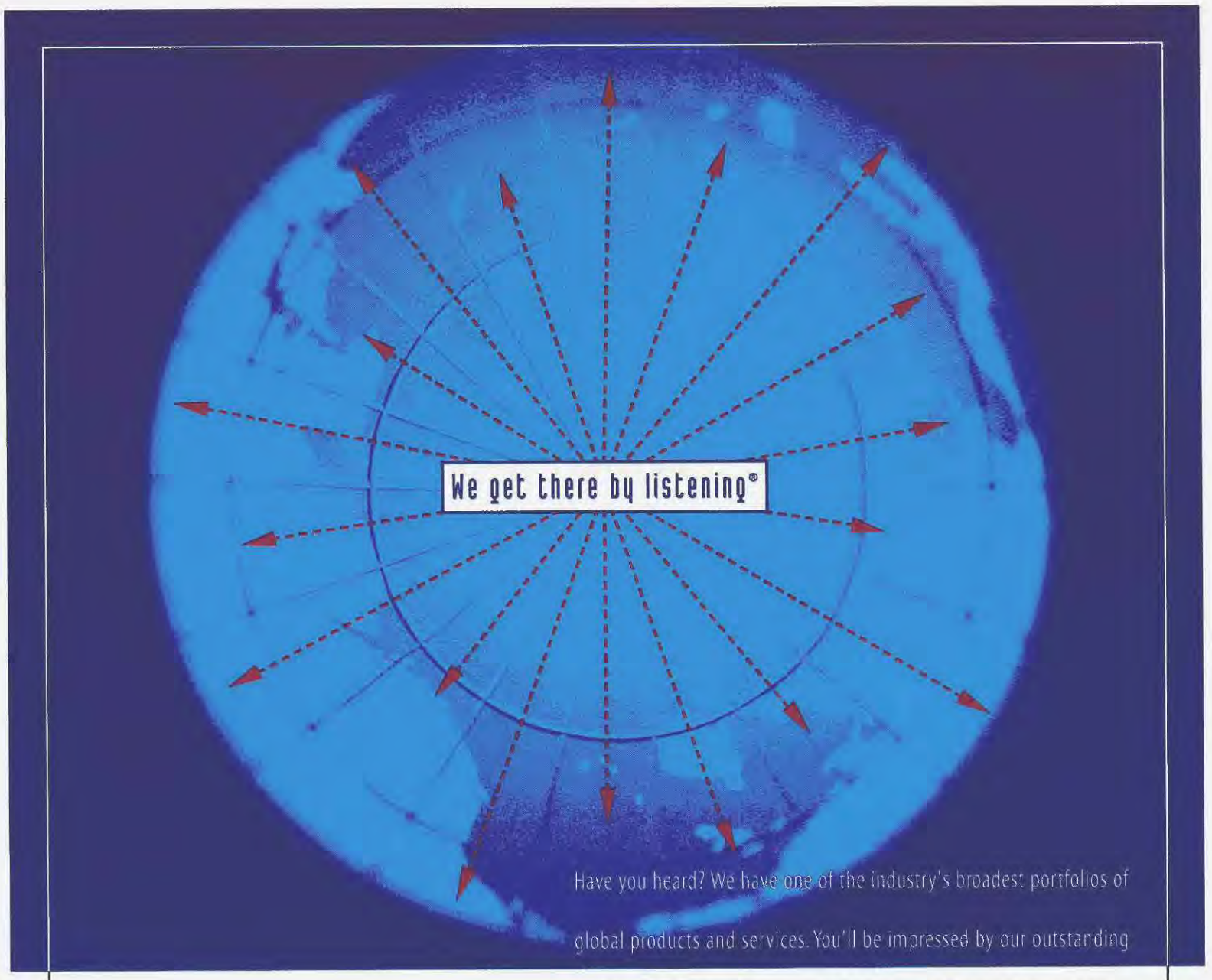
"We're preparing for a hurricane and hoping that it turns out just to be a mild tropical breeze," said Shand's Mr. Springman. "It has the potential of being a very significant event."

Shand and Evanston have introduced Year 2000 exclusions on some professional liability policies, such as D&O liability insurance, and are surveying policyholders about their efforts to eliminate Year 2000 computer problems during the underwriting process.

Lexington also is attempting to underwrite the exposure, according to Mr. Kelley.

But even if Year 2000 exposures are excluded from liability policies, United National's Mr. Cohen predicts new products soon will be offered to cover these exposures.

As Mr. Springman put it: "Everybody knows what the problem is, most everybody knows how to fix it; it's just a problem of time and resources, and whether or not people are going to be able to do it in time." BI



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Health

Continued from page 1

provider organizations will climb by 6% to 10%. Traditional indemnity plan rates will increase 8% to 12%.

Indeed, rate hikes for the small percentage—generally 15% to 20%—of employers that renew July 1 were higher than for employers with Jan. 1, 1998, renewals.

At Santa Ana, Calif.-based PacifiCare Health Systems Inc., larger and national accounts will see rate HMO rate increases of 6% to 8%, though HMO rates for small and midsized accounts could rise 8% to 10%, said Arnold Hebert, senior vp of sales and marketing.

POS plan rates will rise about 10% for all types of accounts, Mr. Hebert said.

But rates are rising much more steeply for some employers, especially small companies with adverse experience.

One such company is South Everson Lumber Co. in Everson, Wash. The company's PPO hit it with a 14.4% rate increase. Denise Hayes, office manager for the 137-employee company, said paying the hefty bills associated with the birth of a child with a heart defect may have contributed to the big rate increase.

Other employers say rate increases have varied widely depending on the location of HMOs. At Conestoga Wood Specialties Corp. of East Earl, Pa., rates for employees covered by HealthSource HMOs in Arkansas and North Carolina climbed 10.5% in May, according to Tim Stayer, corporate human resources manager. On the other hand, Aetna U.S. Healthcare HMOs covering employees in Pennsylvania and Maryland increased rates between 4% and 5%, Mr. Stayer said.



While rising rates are the norm at midyear and for the year ahead, there are big geographic variations. In general, rates are rising most steeply in the West, especially California, where the battle for market share has been the most intense for the past several years.

Midyear rates at Kaiser Permanente, the giant HMO in Oakland, Calif., have been raised, on average, about 11%, said Dean Ward, director of operations of Kaiser Permanente Insurance Co., a for-profit Kaiser subsidiary.

Indeed, Kaiser's Mr. Ward acknowledges that Kaiser's rate increases next year will be among the highest in the country. But the HMO, which reported a $270 million loss earlier this year, kept rates generally flat in 1997, he said, while other HMOs were beginning to bump up rates.

While rate increases will be the highest in California and could hit double-digits in some cases, more modest increases will prevail elsewhere.

At Harvard Pilgrim Health Care, an HMO in Brookline, Mass., midyear renewal rates generally climbed 3% to 5%.

"We are reading about double-digit increases in the West, but we are not seeing this elsewhere," said Barry Barnett, a principal with PwC Kwasha in Fort Lee, N.J., the new name for the benefit consulting unit of Price Waterhouse Coopers.

For example, the Health Alliance Plan, an HMO in the Detroit area with 540,000 members, says rates will rise 4% to 10% next year.

But that increase contrasts sharply with average rate decreases of 1.9% in 1997 and 2.3% in 1996, said Bob Skaggs, Health Alliance's director of marketing.

The new era of HMO rate increases is—at least for now—reasonably palatable because, if health care inflation is taken into account, rates for many employers still are not higher than they were a few years ago.

"We have had an extended valley. We shouldn't be shocked if we start to go up a peak," said Joseph Martingale, a principal at Towers Perrin in New York.

Even with a clear turn in the underwriting cycle, employers should be able to negotiate lower rate increases than those that HMOs are demanding.

While some HMOs may propose 8% to 14% rate increases, increases are likely to be between 6% and 8% when the dust settles, said Blaine Bos, a consultant with William M. Mercer Inc. in Chicago.

"A lot will depend on an employer's experience," said Harvey Sobel, a principal and consulting actuary with Buck Consultants Inc. in Seacaucus, N.J.

The biggest factor behind rising HMO rates: the need for managed care plans to bring their balance sheets back to good health after years of artificially low rates—which were set at those levels to gain market share—eroded profitability.

"HMOs are attempting to make up for years of underpricing," said Tom Beauregard, a consultant in the Rowayton, Conn., office of Hewitt Associates L.L.C.

"This is the recovery from years of market-share underwriting," agreed John Erb, area vp at Gallagher Benefit Services in Boca Raton, Fla.

While market-share underwriting is the lead cause of higher rates, it is not the only factor pushing up rates. Health care executives and benefit managers say soaring prescription drug costs also are a culprit in the return of health care inflation.

At Franklin Electric Co. Inc., a Bluffton, Ind., manufacturer of electrical pumps, prescription drug costs have been rising 12% to 15% for its self-insured PPO.

James Cole, Franklin Electric's manager of health care programs, cites a triple-whammy effect for the rising costs.

"You have more expensive drugs being prescribed, as well as more utilization. And there is more use of brand-name drugs." Mr. Cole said.

Health care experts cite direct consumer advertising by pharmaceutical manufacturers as a key reason consumer demand for prescription drugs is burgeoning.

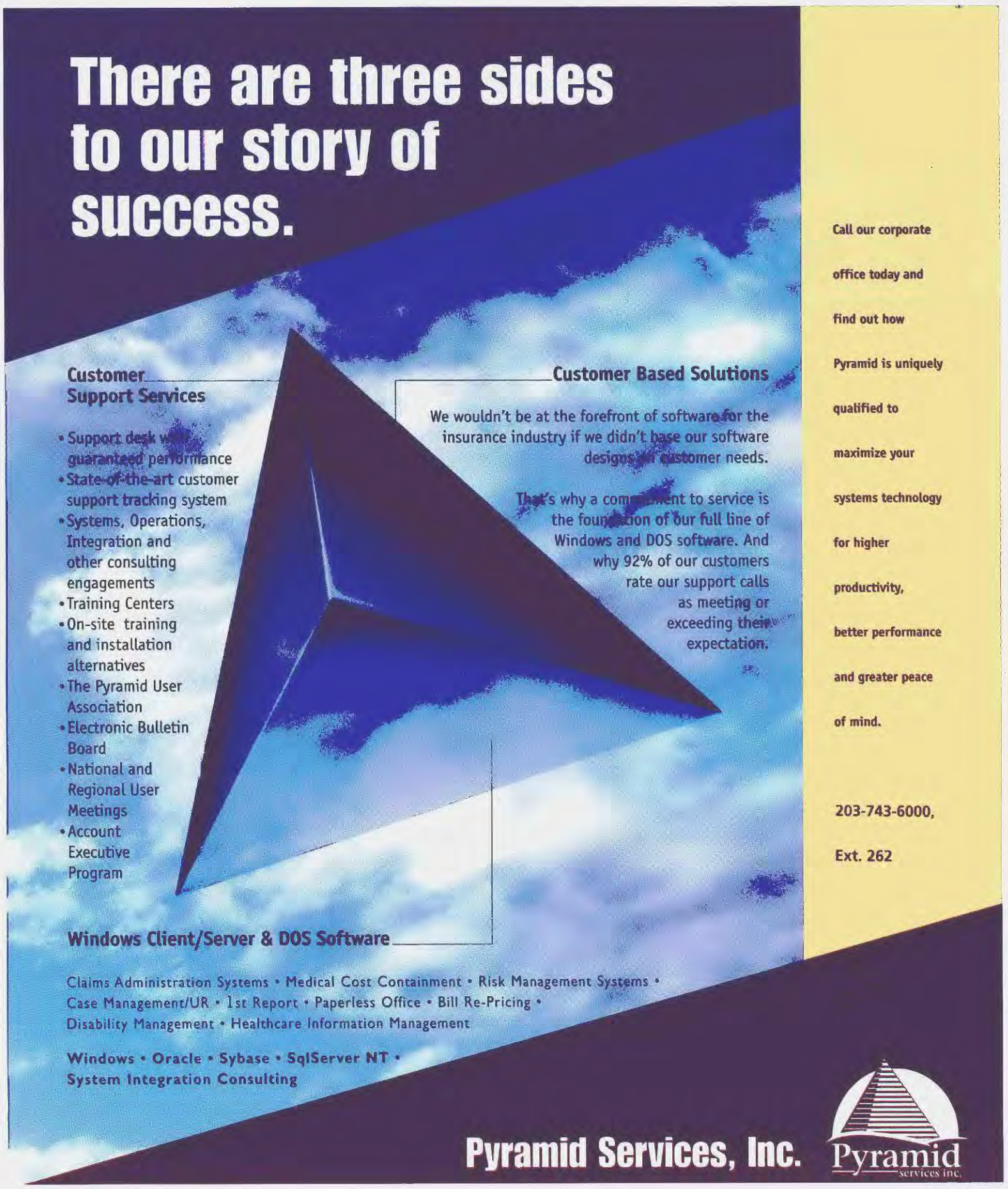
"Consumers are being bombarded with advertising by new and different drugs," said Randy Abbott, a consultant and regional health care practice leader with Watson Wyatt Worldwide in Little Falls, N.J.

The result, said Mr. Abbott, is that health care plan participants are much more willing to ask their physicians for prescriptions, and their physicians "seem willing to accommodate patients."

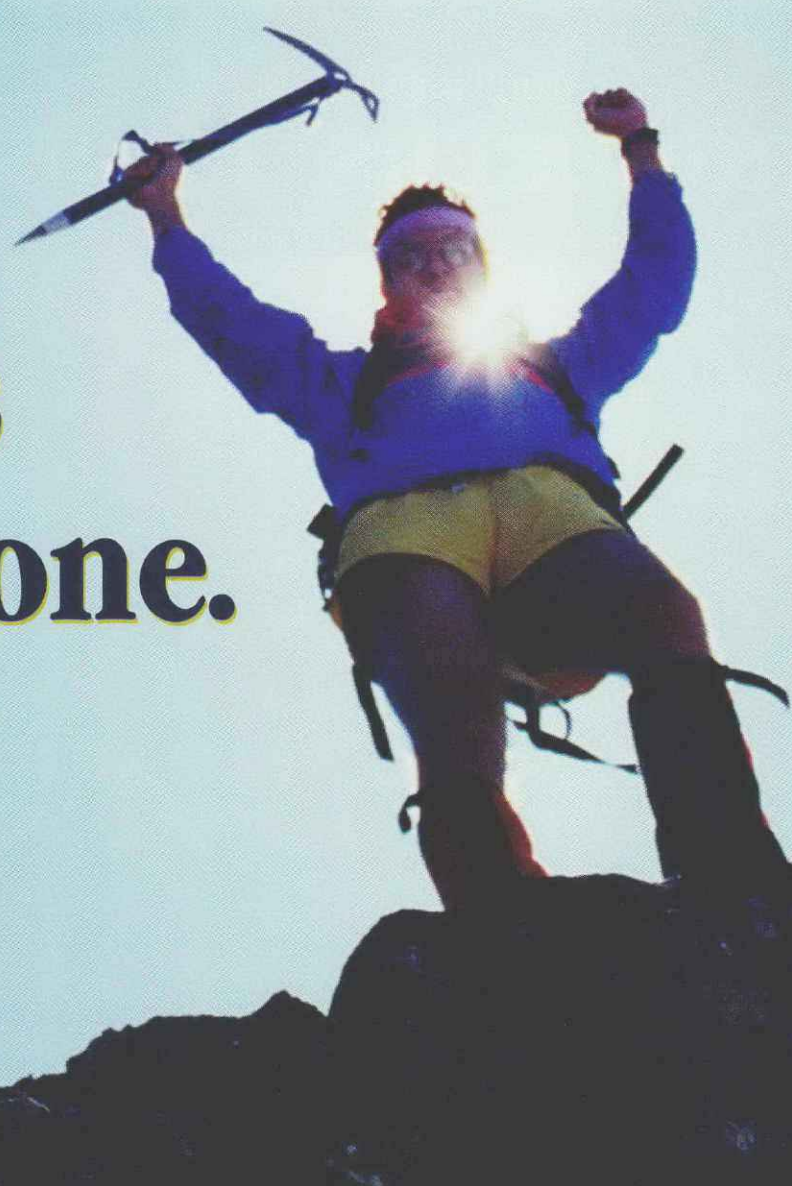
In addition, prescription drug costs are rising rapidly because some new, popular drugs—the male impotency-combating drug Viagra being one example—have no lower-cost generic equivalent, said Ferris Taylor, director of marketing at Harvard Pilgrim Health Care.

The big increase in prescription volume may not be entirely a bad thing if drug therapies keep employees out of costly hospitals. But, so far, employers are not seeing a correlation between increases in

See **Health** *on page 38*



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Health

Continued from page 36

prescription volume and lower hospital or other medical care expenses.

"If drug treatments are eliminating the need for surgical intervention or other costly treatments, that could be a good thing for health care plans. The reality, though, is that most plan sponsors would be hard-pressed to see any reduction in medical plan costs," Mr. Abbott said.

Employers, in response to rising prescription drug costs, are beginning to shift at least a portion of the costs to employees.

Mr. Abbott said copayments of $7.50 or even $10 are replacing $5 copayments in many cases.

Still, employers, at a time of a booming economy and a tight job market in many parts of the country, are not attempting to pass a significant chunk of health care cost increases on to employees.

"Things have been humming smoothly on health care for the last four or five years. Health benefits have not been an issue. For an employer to suddenly enrage employees. . .you would not want to do that in this job market," Mr. Erb said.

In addition, employers with union contracts cannot, in sync with a turn in the market, immediately impose more cost-sharing requirements.

"If you miss a cycle with unions, you have to wait another three years. Ultimately, there will be more cost-shifting to employees, but things move slowly," Mr. Sobel said.

But some employers with very rich benefit programs do intend to shift at least a portion of cost increases to employees.

South Everson Lumber, which pays 100% of employees' health care premiums, is considering charging employees for at least a portion of its $21,000 monthly health care premium expense, said Ms. Hayes.

On the one hand, mergers give HMOs more clout with providers, says Harvey Sobel. On the other hand, he adds, 'employers will have fewer choices.'

To date, the wave of HMO mergers has not had a significant impact on rates, with the biggest short-term effect, in some cases, disruptions of services.

"In the short term, both providers and patients pay a hefty price in terms of disrupted services and confusion, though there has been little or no impact on rates," said Watson Wyatt's Mr. Abbott.

But HMO mergers do mean fewer choices for employers, and that could spell higher rates in certain markets. One key test of the impact of mergers on rates could occur soon in Florida.

In the Florida market, Humana Inc. was known as a price leader. "Humana was very aggressive in its pricing. They saved employers and employees a ton of money," Mr. Erb said.

By contrast, United HealthCare Corp., which recently announced it is purchasing Humana, is better known in Florida for the size of its managed care network, not the lowest price.

Other health care experts say that over the long term, the continuing consolidation in the managed care market could be positive for corporate buyers.

"In a mature market, the survivors will be those with access to capital and the ability to manage information, all of which is good for the consumer," Mr. Abbott said.

Others are less certain that mergers are a positive development for corporate buyers.

"The effects really are mixed," Buck's Mr. Sobel said. On the one hand, mergers give HMOs more clout with providers, which should mean a more favorable fee schedule, he said.

On the other hand, Mr. Sobel said, "Employers will have fewer choices, and HMOs will become tougher in their willingness to negotiate. I would have to say the negatives outweigh the positives."

With rates going up, inevitably questions pop up as to whether buyers can expect a return to the hyperinflation of the mid- and late-1980s, when rates were increasing 15% to 20% each year.

For now, experts say a return to hyperinflation, in an era when roughly 85% of employees and their dependents are in managed care plans, is inconceivable.

"With fees now negotiated, providers no longer can raise charges unilaterally," Mr. Sobel said.

Still, there is disappointment that managed care organizations have not done more to achieve cost savings through quality improvements rather than a focus on squeezing providers for discounts.

"Managed care plans often have relied on discount arrangements to keep costs under control. But they haven't done enough to truly manage care," Mr. Erb said.

Some HMOs, Mr. Erb said, are no more than claims payers. "The move to managed care from traditional indemnity was achieved by squeezing providers to get discounts. Those savings were achieved without a lot of care management," he said.

Others concur that there still is tremendous fat in the health care system and that care delivery can be improved without increasing costs. "The future will truly belong to those who can capture that concept," Mr. Abbott said.

For the immediate future, some benefit managers are concerned about the managed care-bashing taking place in state legislatures and in Congress.

For example, Michael Pikelny, corporate actuary and benefit consultant at Hartmarx Corp. in Chicago, worries that more bureaucracy could result from a House Republican health care task force recommendation that health plans, among other things, establish both internal and external review programs for disputed claims.

So far, though, legislative mandates, such as requiring health care plans to offer women at least two days of hospitalization after giving birth and giving patients direct access to certain specialists, have not yet had a significant impact on costs.

But health care experts say costs could rise sharply if Congress were to pass legislation allowing patients to sue health care plans and employers for damages allowed under state law.

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AUTOMATED SYSTEMS AND SOFTWARE FOR INSURERS

■ A booklet explaining **interactive voice response technology**, including a glossary of terms, is provided by Information Products Inc. Request item **2102**.

CAPTIVES

■ A booklet on **captive company formation** is available from the Meadowbrook Insurance Group. Request item **2103**.

■ An overview of the **1986 Liability Risk Retention Act** that discusses risk retention groups, purchasing groups and related issues is presented by the Risk Retention Reporter. Request item **2104**.

COMMERCIAL PROPERTY/ CASUALTY INSURANCE

■ Wilson, Elser, Moskowitz, Edelman & Dicker offers a **state-by-state analysis of laws** regarding human resources, civil rights and discrimination. Request item **2105**.

■ Swiss Re America has published an analysis of **global premium volume** broken down by country. Request item **2106**.

■ A report reviewing the **outlook of the insurance market** and analyzing major coverage lines is available from Sedgwick Noble Lowndes. Request item **2107**.

■ A booklet that details **property and casualty insurance courses and programs** is offered by the American Institute for CPCU and the Insurance Institute of America. Request item **2108**.

■ ECS Underwriting offers an explanation of issues and trends in **environmental insurance**. Request item **2109**.

■ A study that forecasts **property/casualty results** for the U.S. and other major global marketplaces is available from Swiss Re America. Request item **2110**.

■ The American Assn. of Insurance Services offers a catalog that describes its **programs and services**. Request item **2111**.

■ The Insurance Institute of America provides an overview of the three-course **Program in General Insurance**. Request item **2112**.

■ A report of recent developments in the laws regarding **issues of litigation and analysis**, including commentary on special points of interest, is offered by Claussen Miller P.C. Request item **2113**.

■ **Global market trends** and analyses of coverage lines and major industry segments are discussed in a report by J&H Marsh & McLennan Inc. Request item **2114**.

■ Great American Insurance Co. offers a **liability insurance guide** for non-publicly traded companies. Request item **2115**.

■ A group of **exposure sheets** featuring claims scenarios, exposure lists and guides for a wide variety coverages is available from ECS Underwriting. Request item **2116**.

■ An article that proposes an industry-wide position on **genetic testing** is available from Lincoln Re. Request item **2117**.

■ A flyer describing the **Chartered Property Casualty Underwriter program** is offered by the American Institute for CPCU. Request item **2118**.

■ A report that compares the **limits of liability** purchased by similarly sized companies within major industries is provided by J&H Marsh & McLennan Inc. Request item **2119**.

■ Guy Carpenter & Co. Inc. offers a report on the evolution of employment practices liability exposure and the options available for responding to **EPL risk**. Request item **2120**.

■ A newsletter offered by Mound, Cotton & Wollan discusses decisions and developments in **insurance and reinsurance law**. Request item **2121**.

■ A brochure from Nils Publishing Co. explores events and trends of **regulatory activity** in state and federal insurance. Request item **2122**.

■ Wilson, Elser, Moskowitz, Edelman & Dicker provides a state-by-state analysis of **punitive damages and unfair claims settlement practices**. Request item **2123**.

■ A review of coverages and value-added services provided by different carriers in the **employment practices liability insurance market** is available from Betterley Risk Consultants Inc. Request item **2124**.

FIDELITY & SURETY

■ Far West Bond Services presents a pamphlet on the **basic principles of surety bonds** and issues to consider before purchasing a bond. Request item **2125**.

■ A flyer that details the **Associate in Fidelity and Surety Bonding** designation program is offered by the Insurance Institute of America. Request item **2126**.

FINANCIAL SERVICES

■ A flier available from the Insurance Institute of America outlines the **Associate in Insurance Accounting and Finance program**. Request item **2127**.

■ A newsletter containing various articles on **securities litigation** is available from Wilson, Elser, Moskowitz, Edelman & Dicker. Request item **2128**.

INTERNATIONAL

■ A collection of articles that address the legal considerations of **foreign corporations doing business in the United States** is available from Wilson, Elser, Moskowitz, Edelman & Dicker. Request item **2129**.

■ Duff & Phelps Credit Rating Co. offers a report that discusses **rating the claims-paying ability of insurers** operating in emerging market countries. Request item **2130**.

■ A report examining the challenges and opportunities faced by **Latin American insurers** is presented by Duff & Phelps Credit Rating Co. Request item **2131**.

LOSS CONTROL/PEOPLE

■ A booklet that offers an overview of

Continued on page 42

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Issue of July 6

Reader Service #	Advertiser	Page #
—	Admiral Insurance	49
1	Bene Com Associates	48
2	Burnham Systems	48
—	Business Insurance	41
3	Carvill America, Inc.	52
4	Chubb Group of Insurance Co's	47
5	CNA/Risk Management	34
6	Commonwealth Risk Service	38
7	Corvel Corporation	12-13
—	Delta Dental Ins. Plan	41R
8	ECS Underwriting Inc.	37
9	Facts Services Inc.	48
—	First State Management Group	16
—	First Union Capital Mkts.	30
10	GAB Robins	15
—	General Accident Ins.	26-27
11	General Reinsurance	35
12	GENEX	4
13	The Hartford Specialty Div.	14
14	Hertz Claim Management	6
15	HSB/Industrial Risk Insurer	21
—	I M G	46
16	INEX	24
17	Insurance Overload Systems	32
18	KPMG Peat Marwick/Montvale	11
19	Liberty Mutual	9
20	NILS Publishing Company	46
21	Old Republic Risk Management	29
—	Outdoorsman Agency	42
22	PMA Reinsurance Corp.	18-19
23	Protection Mutual Ins. Co.	22-23
—	Provantage, Inc.	28
24	Pyramid Services Inc.	36
25	Reliance National	7
26	Royal & Sunalliance	56
27	Sedgwick James	25
—	Signet Star Reinsurance	39
—	State Comp. Ins. Fund	41R
28	Swett & Crawford Group	20
29	Swiss Re America	44
30	TIG Insurance	17
—	Travis Software	52
—	United Healthcare	33
31	USA Managed Care Organization	42
32	D. W. Van Dyke & Company	28
—	Wausau Insurance Company	5
33	Willis Faber N. America	10

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31	32	33	34	35	36	37	38	39	40	41	42	43	44	45
46	47	48	49	50	51	52	53	54	55	56	57	58	59	60
61	62	63	64	65	66	67	68	69	70	71	72	73	74	75
76	77	78	79	80	81	82	83	84	85	86	87	88	89	90
91	92	93	94	95	96	97	98	99	100	101	102	103	104	105
106	107	108	109	110	111	112	113	114	115	116	117	118	119	120
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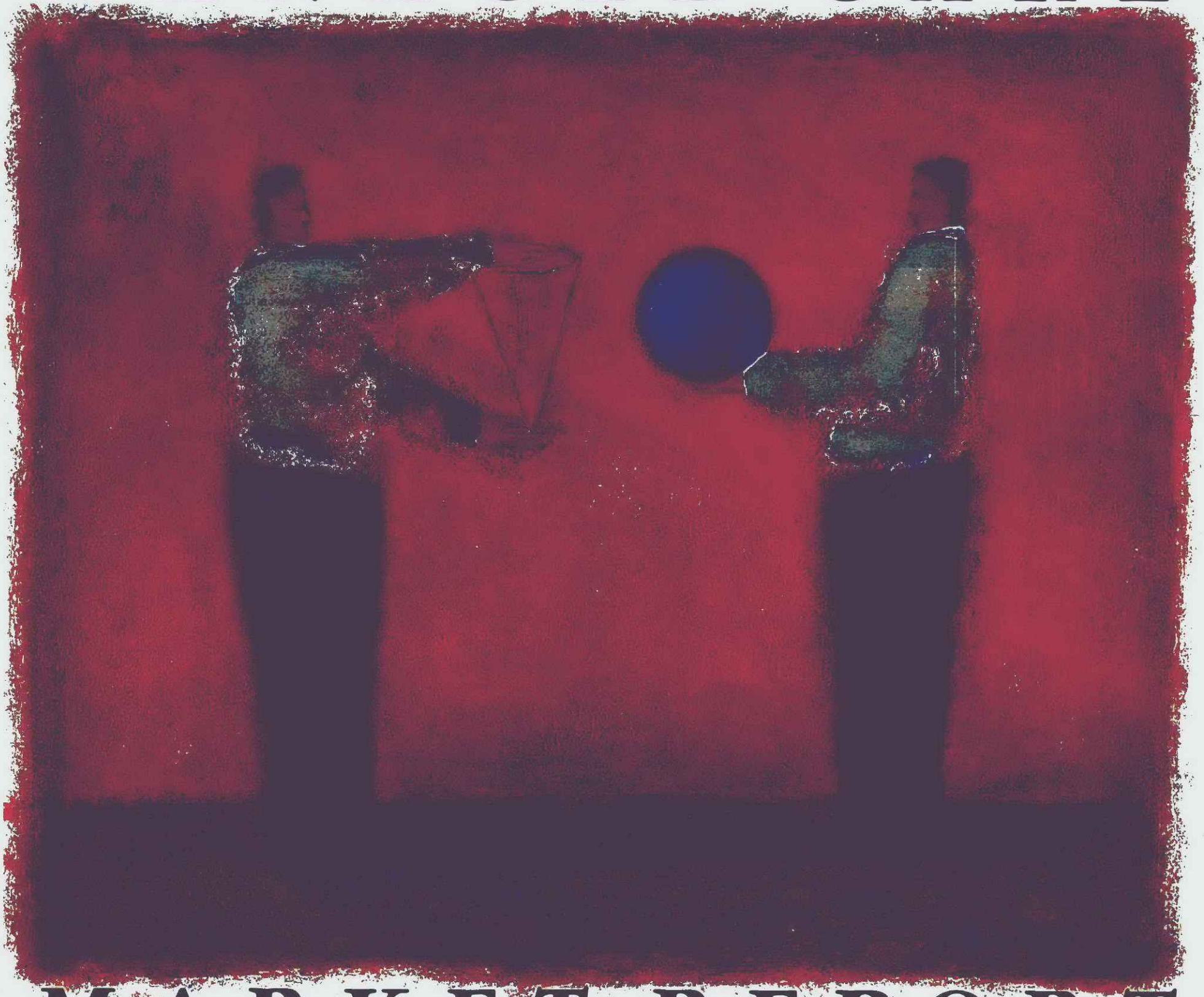
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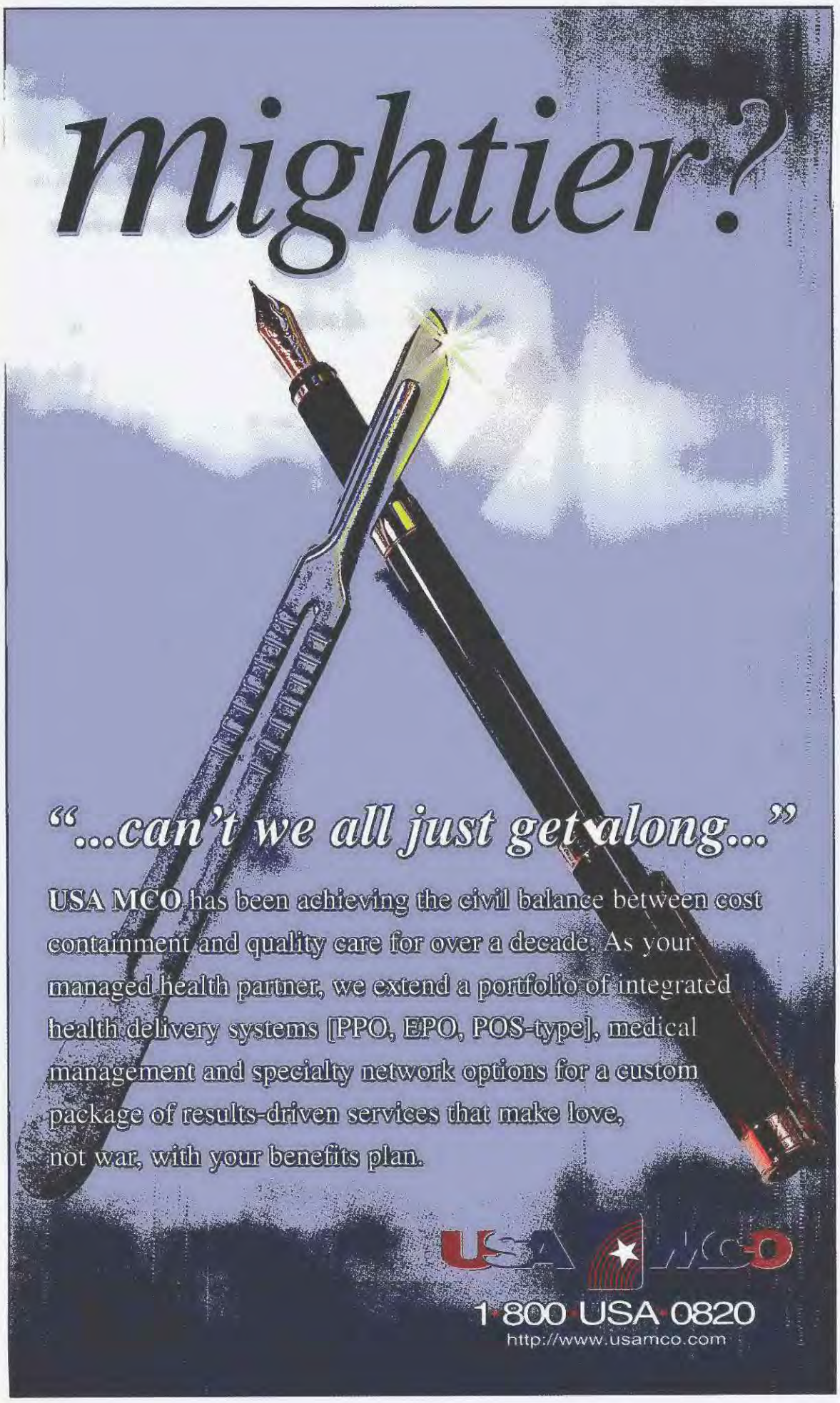
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Continued from page 40

risks and costs associated with major types of cardiovascular disorders and their treatments is provided by American Re-Insurance Co. Request item **2132.**

■ Future Industrial Technologies provides **instructional safety cards** for injury prevention and behavioral safety training. Request item **2133.**

■ Total Lowback Care Management Co. provides a booklet describing a **return-to-work program** designed to lower workers comp costs for companies whose workers are prone to back injury. Request item **2134.**

■ A report on legal developments in the area of **employment law**, including summaries of recent cases and tips on prevention, is presented by Wilson, Elser, Moskowitz, Edelman & Dicker. Request item **2135.**

LOSS CONTROL/PROPERTY

■ A brochure on the **Associate in Loss Control Management program** is offered by the Insurance Institute of America. Request item **2136.**

■ Intercargo Insurance Co. provides a discussion of ways to **reduce cargo losses** in warehouses and trucks. Request item **2137.**

■ A report from Swiss Re America provides an analysis of **insured losses worldwide** from catastrophes in 1996. Request item **2138.**

MARINE

■ A brochure on the **Associate in Marine Insurance Management program** is offered by the Insurance Institute of America. Request item **2139.**

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REINSURANCE

■ Swiss Re America provides a report that evaluates the adequacy of **nonproportional reinsurance** against natural catastrophes in major marketplaces around the world. Request item **2140.**

■ Standard & Poor's offers a report providing commentary and analysis on the **Bermuda market**, including articles on catastrophe and finite reinsurance, captives and high excess liability coverage. Request item **2141.**

■ NAC Reinsurance Corp. offers an article discussing initiatives in claims processing and electronic contracting. Request item **2142.**

■ A collection of articles examining several types of claims that may have a potential impact on the insurance industry is available from the American Re-Insurance Co. Request item **2143.**

■ Guy Carpenter & Co. Inc. offers a **global reinsurance analysis** that discusses global expansion, growth through acquisition and the securitization of insurance risk. Request item **2144.**

■ A newsletter that examines **legislative and regulatory developments** affecting reinsurance buyers is presented by NAC Reinsurance Corp. Request item **2145.**

■ Duff & Phelps Credit Rating Co. offers a report that discusses the rating rationale of an entity formed for the purpose of **securitizing property catastrophe exposure**. Request item **2146.**

■ A quarterly journal issue that features articles relating to **life and health insurance** has been published by Lincoln Re. Request item **2147.**

■ NAC Reinsurance Corp. offers a discussion the legal and practical issues of **reinsurance contracts.** Request item **2148.**

■ A **global reinsurance survey**, including a list of the world's leading reinsurers and commentary on global markets, is available from Standard & Poor's. Request item **2149.**

■ Gill & Roeser Inc. offers a **glossary of selected reinsurance terms**. Request item **2150.**

■ A flyer that outlines the **Associate in Reinsurance program** is offered by the Insurance Institute of America. Request item **2151.**

RISK MANAGEMENT

■ Willis Corroon offers a guide to **environmental regulations**, risk management and insurance. Request item **2152.**

■ A newsletter providing information on plan documents and **outsourcing medical benefits subrogation** is avail-

Continued on next page

Continued from previous page
able from Strategic Recovery Partnership Inc. Request item **2153.**

■ Wilson, Elser, Moskowitz, Edelman & Dicker presents a report on recent legal developments in the area of **health care.** Request item **2154.**

■ Executive Risk offers publications on **risk management procedures** for health care providers. Request item **2155.**

■ A paper on what to look for and what to ask when **reviewing legal bills** is presented by the ICALM Group. Request item **2156.**

■ A report on **toxic tort, latent injury and environmental issues** is offered by Wilson, Elser, Moskowitz, Edelman & Dicker. Request item **2157.**

■ An article from Sigma Actuarial Consulting Group Inc. explains a **confidence interval** and how losses are estimated. Request item **2158.**

■ A newsletter offering techniques for **preventing, minimizing and financing environmental risks** is provided by Sedgwick Environmental Services. Request item **2159.**

■ The ICALM Group offers a **check list of action items** for hotel management personnel with legal, financial, risk management and catastrophe planning responsibilities. Request item **2160.**

■ A report outlining **environmental risks** in terms of mergers and acquisitions is available from Willis Corroon. Request item **2161.**

■ Strategic Recovery Partnership Inc. offers a quarterly newsletter with topics relevant to **subrogation.** Request item **2162.**

■ The ICALM Group offers a checklist to assist in the **evaluation of claims and litigation management procedures**. Request item **2163.**

■ **Accountant's liability** is the topic in a report presented by Wilson, Elser, Moskowitz, Edelman & Dicker. Request item **2164**.

■ A booklet examining **risk management procedures for employment practices** is available from Executive Risk. Request item **2165.**

■ A booklet addressing issues such as risk management concerns, **actual claim occurrences,** upcoming events, success stories and latest breakthroughs is offered by Penco. Request item **2166.**

■ **Fair debt collection practices** is the topic of a brochure offered by Strategic Recovery Partnership Inc. Request item **2167.**

■ **Product liability** is the issue covered in a report from Wilson, Elser, Moskowitz, Edelman & Dicker. Request item **2168.**

■ The absolute pollution exclusion in commercial general liability policies is examined along with **environmental exposures in construction projects** in a paper by Willis Corroon. Request item **2169.**

■ Sigma Actuarial Consulting Group Inc. offers a newsletter that presents an overview of the requirements of **GASB 10.** Request item **2170.**

■ An overview of **insurance coverage and environmental tort cases** is provided in a booklet by the American Re-Insurance Co. Request item **2171.**

■ Wilson, Elser, Moskowitz, Edelman & Dicker present a report on **D&O and fiduciary liability**. Request item **2172.**

■ Criteria for **understandable legal bills** is presented by the ICALM Group. Request item **2173.**

■ An outline of the **Associate in Risk Management program** is offered by the Insurance Institute of America. Request item **2174.**

■ A bulletin is available from NAC Reinsurance Corp. that analyzes **emerging liability and insurance coverage issues** facing international insurers. Request item **2175.**

■ The ICALM Group presents an article on **litigation management** and successful client/counsel relationships. Request item **2176.**

■ Executive Risk offers a booklet focusing on **risk management procedures for employment practices**. Request item **2177.**

■ A paper prepared by Willis Corroon examines **contaminated property transactions** and the risk management considerations. Request item **2178.**

■ A guide to **reducing legal costs** through communication is presented by the ICALM Group. Request item **2179.**

■ A plan to **minimize potential losses** through effective risk management and approprite insurance is outlined in a handbook from the Chubb Group of Insurance Cos. Request item **2180.**

■ Wilson, Elser, Moskowitz, Edelman & Dicker offers an article on how hotels, shopping centers, security providers and landowners can **guard against liability in premises security lawsuits**. Request item **2181.**

■ An article discussing **the value of a cash flow analysis** is available from Sigma Actuarial Consulting Group Inc. Request item **2182.**

■ The ICALM Group offers a guide to successful and **cost effective litigation management**. Request item **2183.**

■ Avert Inc. provides a white paper that outlines requirements enacted under the 1996 amendments to the **Fair Credit Reporting Act** when using public records in the applicant screening process. Request item **2184.**

■ A newsletter giving advice on **managing and controlling costs** for small to medium-sized businesses is available from Liberty Mutual Group. Request item **2185.**

■ Articles dealing with **employment-related lawsuits**, policy recommendations and guidelines for prevention programs are outlined by the Brennan Group Co. Request item **2186.**

■ A paper from Sigma Actuarial Consulting Group Inc. discusses the theory and uses of **loss triangles**. Request item **2187.**

■ CNA presents a newsletter advising risk managers how to fight **insurance fraud** within their companies. Request item **2188.**

■ A report on **dental malpractice** is offered by Wilson, Elser, Moskowitz, Edelman & Dicker. Request item **2189.**

■ A booklet supplied by NAC Reinsurance Corp. analyzes emerging liability and insurance coverage issues affecting the **D&O, E&O and EPLI markets**. Request item **2190.**

■ BNA Books presents a fact sheet defining **sexual harassment** is under federal law as well as how to deal with sexual harassment situations. Request item **2191.**

■ A study by MetLife examines the financial loss to businesses as a result of **decreased productivity by employees who are also caregivers.** Request item **2192.**

■ A report discussing major rating issues related to the **Lloyd's of London market** is offered by Duff & Phelps Credit Rating Co. Request item **2193.**

■ An overview of current **environmental regulations** in certain industrial and developing countries is provided by American Re-Insurance Co. Request item **2194.**

■ The ICALM Group offers a list of questions to keep in mind when evaluating when and where to conduct **claim audits**. Request item **2195.**

■ Claussen Miller P.C. presents a report for design professionals examining the **legal issues impacting the practice of architecture and engineering**. Request item **2196.**

■ **Risk management issues for corporate insurance buyers** are addressed in an article by the Liberty Mutual Group. Request item **2197.**

■ A paper by MMI Cos. Inc. discusses how to prevent **professional liability claims** relating to cancer and cardiac diagnoses in the physician office setting. Request item **2198.**

■ Brochures are available from MetLife that provide brokers with **reference tools** relevant to their business, such as Internet capabilities, travel tips and time management. Request item **2199.**

■ Wilson, Elser, Moskowitz, Edleman & Dicker offers a report on **medical malpractice defense**. Request item **2200.**

■ A bulletin is presented by NAC Reinsurance Corp. that provides analysis of **emerging liabilities and insurance coverage issues**. Request item **2201.**

■ A paper describing the use of **predictive models** to manage risk in industrial organizations is provided by The Reliability Group. Request item **2202.**

■ A report that discusses recent legal developments and cases concerning **various liability coverages** is supplied by Wilson, Elser, Moskowitz, Edelman & Dicker. Request item **2203.**

■ A quarterly newsletter that explores various risk management issues is available from Crawford & Co. Request item **2204.**

■ The **Insurance School of Chicago** offers a brochure and catalog detailing a list of seminars and classes for the insurance industry. Request item **2205.**

■ An evaluation of **consolidation in the insurance industry** and its impact on risk managers and their advisers is offered in a report by Betterley Risk Consultants Inc. Request item **2206.**

■ A report from Betterley Risk Consultants Inc. examines approaches to **more effective claims managment**. Request item **2207.**

RISK MANAGEMENT INFORMATION SYSTEMS

■ A paper from Pyramid Services Inc. outlines a four-step **quality control program** to help risk managers consolidate and deliver accurate company data to clients. Request item **2208.**

■ Deloitte & Touche L.L.P. presents a step-by-step guide for **testing RMIS software**. Request item **2209.**

■ Dorn Technology Group Inc. offers a paper exploring the necessity of adhering to **data standards**, improving data quality and workable solutions for effective management of risk and claims data. Request item **2210.**

■ An overview of the **RMIS marketplace** in 1997 is offered by Deloitte & Touche L.L.P. Request item **2211.**

■ Structured Financial Associates Inc. offers a diskette that presents the definition and technical functions of **structure use in an individual claim.** Request item **2212.**

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■ A brochure from Insurance Claims Auditing and Professional Services Inc. explains how to determine if a self-insured health or other benefit plan needs a **claim audit**. Request item **2213.**

■ A directory of companies that provide products and services for **self-insured employee benefits or workers compensation plans** is available from the Self-Insurance Institute of America Inc. Request item **2214.** BI

Business Insurance health care information resources

■ The Insurance Institute of America provides a flier on the **professional program** of Associate in Automation Management. Request item **1101.**

■ A survey of technologies, offered by Price Waterhouse, is authored from the data manager's perspective and provides information that can be used to integrate the **actuarial process**. Request item **1102.**

■ The American College offers a descriptive guide about the Registered Employee Benefits Consultant and Registered Health Underwriter **professional designations**. Request item **1103.**

■ **Long-term care underwriting, claim administration and policy design** are some of the topics discussed in a manual offered by Duncanson & Holt Group. Request item **1104.**

■ **Medicare changes** introduced in the Balanced Budget Act are described in the fact sheet offered by Buck Consultants Inc. Request item **1105.**

■ Duncanson & Holt Group offers a manual providing an overview of the global **long-term care** marketplace, including discussions of demographics, government programs and private insurance. Request item **1106.**

■ An annual guide to underwriting **individual long-term care** insurance is provided by Duncanson & Holt Group. Request item **1107.**

■ RLI Insurance Co. offers an article about the benefits to the employee and corporation provided by executive **supplemental medical insurance** plans. Request item **1108.**

■ A manual provided by Duncanson & Holt Group addresses **stop-loss insurance** from an underwriter's point-of-view. Request item **1109.**

■ A ReliaStar Financial Corp. booklet presents an analysis of the health of each state's **population**. Request item **1110.**

■ A guide to the claim process and the differences between the claim process for **long-term disability** and other insurance products. Request item **1111.**

■ Standard & Poor's provides a **managed care report** that features ratings, rationales and financial data for 42 domestic health care organizations. Request item **1112.**

■ A pamphlet surveying health insurers and HMOs to measure the annual change in the factors used to adjust **health claims** when pricing future health insurance risks is available from Sedgwick Noble Lowndes. Request item **1113.**

■ Towers Perrin provides a study identifying key **health plan performance evaluation** criteria and benchmark data based on the performance of several U.S. health plans. Request item **1114.**

■ A study offered by Intracorp explores the attitudes and perspectives of the American worker regarding **personal health**. Request item **1115.**

■ A handbook that addresses how some **COBRA** laws are being interpreted is offered by Sedgwick Noble Lowndes. Request item **1116.**

■ A study aimed at employers that identifies strategic issues relevant to employer **health benefit spending** is offered by Towers Perrin. Request item **1117.**

■ A survey of retirees' attitudes about **Medicare HMOs** is available from Towers Perrin. Request item **1118.**

■ A flier available through the Insurance Institute of America explains the **professional program** of Associate in Insurance Accounting and Finance. Request item **1119.**

■ A paper offered by T.E. Brennan addresses self-insurance and ways that employers can reduce **health costs**. Request item **1120.**

■ A newsletter highlighting new developments for **health plan professionals** is available from Corbel. Request item **1121.**

■ Strategic Recovery Partnership Inc. offers a newsletter discussing congressional initiatives that may affect **self-funded health care plans.** Request item **1122.**

■ The **Insurance School of Chicago** offers a brochure and catalog detailing a list of seminars and designation classes for the insurance industry. Request item **1123.**

■ A flyer covering **risk management for health care organizations** is available from the Center for Advanced Risk Management Education. Request item **1124.** BI

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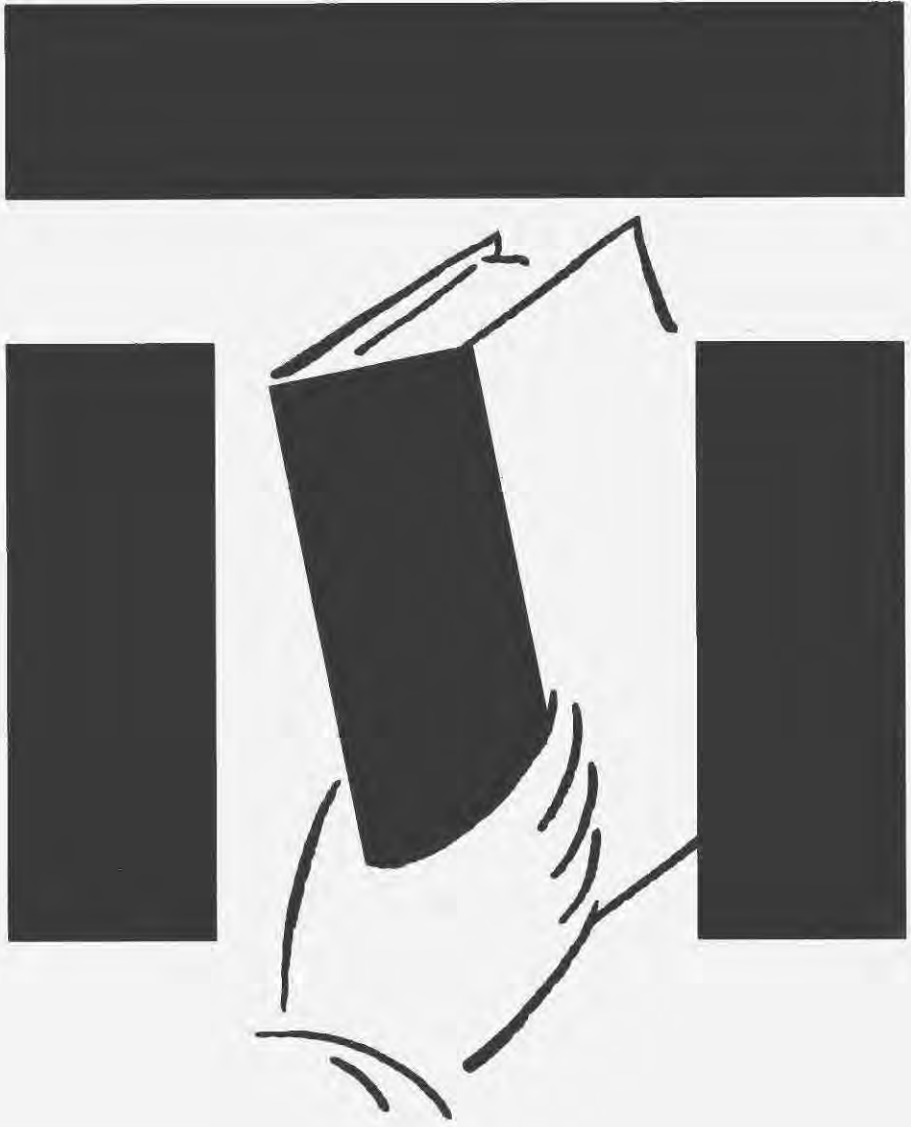
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Global Briefs

Eagle Star Holdings P.L.C., the U.K. multiline insurance subsidiary of B.A.T Industries P.L.C., plans to close 13 U.K. commercial branch offices, resulting in the elimination of 540 jobs, over the next two years. The closures follow a comprehensive review of Eagle Star's operations prior to the merger of the financial services operations of B.A.T with Switzerland's Zurich Insurance Co. The merger, which will create Zurich Financial Services Group (*BI*, May 25), is expected to be finalized by late 1998. Eagle Star will continue to operate as a individual entity. . . .Italian insurer **Assicurazioni Generali S.p.A.** has acquired Swiss asset management company Banca della Svizzera Italiana for 1.9 million Swiss francs ($1.2 million). BSI, based in Lugano, Switzerland, operates in Europe, North America, South America and Hong Kong. As of Dec. 31, 1997, BSI had managed assets of 31 billion Swiss francs ($21.21 billion) for more than 34,000 customers. Generali said in a statement that the purchase will strengthen its capabilities as a provider of an integrated array of insurance, health, pension and asset management services. . . .**Adrian Ballardie** has been appointed managing director and chief executive of AXA Re U.K. P.L.C. of London. Mr. Ballardie, previously AXA Re general manager, replaces Ken Haddon, who retired June 30. Mr. Haddon will continue as nonexecutive chairman of AXA Re for another year. . . .Standard & Poor's Corp. has upgraded the insurer financial strength rating of the **Arab Insurance Group** of Bahrain to A from A-. S&P said the group now has a strengthened capital base after a successful public share offering of 50.5% of the company at the end of 1997 and is well positioned to expand its product base and presence in the Middle East and internationally. . . .Lloyd's of London managing agency **Wellington Underwriting P.L.C.** has signed separate, non-binding agreements to sell its auto and personal lines businesses. Under the agreements, Wellington's auto business will be sold to Crowe Insurance Group Ltd. of London, and its personal lines business will be sold to London-based Chubb Insurance Co. of Europe. Anthony Taylor, Wellington underwriting director, said the sales will allow Wellington to focus on its core business of international marine and non-marine insurance and reinsurance. . . .German reinsurer **Hannover Re** has formally completed its purchase of Skandia International Insurance Co., a division of Skandia Insurance Co Ltd. of Stockholm, Sweden. The sale, which incorporates Skandia's international portfolio of life and health reinsurance, and aviation and space insurance, was agreed to in September (*BI*, Sept. 29, 1997). In conjunction with the completion, the U.K. subsidiary Skandia Reassurance (U.K.) Ltd., which was part of the purchase, has been renamed Hannover Life Re U.K. . . .**Munich Reinsurance Co.**, seeking to boost capital for future acquisitions and strengthen current operations, said last week it will raise 3.3 billion deutsche marks ($1.82 billion) through two share issues. Munich Re plans international stock listings and will raise 2.1 billion marks ($1.16 billion) through a shareholder rights issue and 1.2 billion marks ($663 million) by offering unregistered bearer stock at a price of 247 marks ($137) per share. The reinsurer also said its gross premiums written for the fiscal year ending June 30 rose 38% to 44.4 billion marks ($24.55 billion) Munich Re's net income increased 57% to 1.1 billion marks. The results reflect consolidation of U.S.-based unit American Re-Insurance Co. and a German primary insurance subsidiary.

Equitas shield questioned

Uncertainty over reserve adequacy should concern buyers: Attorney

By EDWIN UNSWORTH

LONDON—Time will tell whether Lloyd's of London's 2-year-old reconstruction and renewal plan will achieve its goal of shielding policyholders and Lloyd's investors completely from potential losses, an attorney warns.

Philip Hertz, a senior associate in the insolvency practice of the law firm Cadwalader, Wickersham & Taft in London, contends that because of uncertainty surrounding the ultimate size of long-tail liabilities reinsured by Equitas Holdings Ltd., the ability of the market to achieve its aim is also uncertain.

Speaking at a London conference, "Current Issues in Insurance and Reinsurance," Mr. Hertz said that "the only real conclusion that can be made is that the level of reserves in Equitas will continue to be of concern in the future to policyholders and ceding companies with exposure to Equitas, as well as the ongoing market."

Equitas was set up in 1996 to reinsure the market's pre-1993 liabilities. Should the reinsurer's reserves in the future prove inadequate to meet its liabilities, then Equitas would be forced to pay only a proportion of policyholders' claims, and names, the individual investors in the market, would be liable for any unpaid balances.

An Equitas spokesman who attended the conference said that he could not dispute Mr. Hertz's claims of what might happen if reserves prove inadequate, but stressed that Equitas was founded on sound reserving principles and that the likelihood of it failing to have adequate resources diminishes as Equitas continues to bolster its reserves and solvency margin. A Lloyd's spokesman was unwilling to comment on Mr. Hertz's assertions.

If Equitas in the future does not have the resources to meet policyholders' claims in full, Mr. Hertz said, Equitas would pay claims on a proportional basis, which means the individual investors in Lloyd's would not achieve the finality of their liabilities intended with the creation of Equitas.

Asked afterwards about the probability of any of this happening, Mr. Hertz said he believes there is little doubt that it will happen eventually. "It's just a question of when," he said.

Lloyd's is thinly reserved even when looking just at asbestos, pollution and health-related liabilities, but it wrote general liability cover stretching back years and so faces additional big exposures, such as tobacco- and the Year 2000-related risks, stated Mr. Hertz. For this reason he contends the day will come when Equitas can no longer pay claims in full, though he did not predict how soon that might occur.

While policyholders theoretically could try to recover from names any additional sums they are owed, Mr. Hertz acknowledged that in reality this could prove difficult.

See **Equitas** *on next page*

Airlines aim to stay grounded in safety

Approaches differ to common goal

By MATTHEW MacDERMOTT

LONDON—El Al Israel Airlines and Indian Airlines are two companies with contrasting safety records and reputations.

El Al is a long-recognized world leader in airline safety. Indian admits it has had its safety problems but says those have been addressed.



Airport risk managers are facing additional exposures
page 46

Both companies gave practical insights into their security and risk management strategies at the first Global Aviation Insurance Conference in London last month.

Zeev Regev, insurance and fuel manager for El Al, said the company has a long experience of identifying and managing risk. In July 1968, one of El Al's Boeing 707 aircraft was hijacked by Algerian terrorists.

"El Al recognized we had a threat to civil aviation and we had to respond," Mr. Regev said.

He said that threat has continued to the present day and has been even further heightened by conflicts in the Middle East during 1990s.

See **Safety** *on page 47*

Jauch explains benefits of merger

By DON LEWIS KIRK

DUSSELDORF, Germany—Competition, cost and innovation are altering Germany's broker market, says Aon Jauch & Huebener Executive Director Jochen Scheele.

After its acquisition last year by Chicago-based Aon Group Inc. (*BI*, Sept. 22, 1997), Germany's largest broker hopes to spearhead market change by expanding the range of products and services available for German buyers.

"Globalization of markets provides new opportunity," said Mr. Scheele. "Clients can expect better service and better products. In today's market there's a solution for even the most difficult risks. Any risk can be tamed."

In Dusseldorf, at the first general meeting of its clients since the September 1997 merger, Mr. Scheele underlined the necessity of the Aon deal to expand service.

"We chose Aon because the company has a broad range of expertise in risk management, risk financing, insurance, reinsurance and company pension plan consulting. We can tap resources in over 100 countries—for the good of the client."

Deregulation also helped open the door to global markets, said Aon Jauch & Huebener's Paul Grothaus, managing director of the Muehlheim branch office. "There's been a shift in product supply and demand—often a result of legal changes. Insurance competition is strengthening a trend to unique solutions with more self-insurance, especially when it supports high-risk retention."

Mr. Grothaus conceded that large commercial clients still talk more than act when it comes to alternative risk financing and captive models, but ART is gaining ground due to what he called "unacceptably high" premium taxes.

See **Aon** *on page 48*

U.K. ruling spotlights fraud law

Legislative inaction hampers prosecution of international cases: Judges

LONDON—Judges in London's Court of Appeal are criticizing the U.K. government for failing to implement legislation that would help courts tackle international fraud.

A panel of three Appeal Court judges overturned three of 11 fraud convictions against a marine insurance broker, claiming that they were forced to so because the government had not yet implemented Part 1 of the 1993 Criminal Justice Act.

Failure to introduce that section of the legislation, which is designed to help authorities prosecute cases of fraud that straddle international boundaries, "seriously undermines the role that the courts of England and Wales should be playing in the battle against international fraud," Lord Justice Buxton wrote for the court.

A spokesman from the Assn. of British Insurers also expressed disappointment that the legislation had not been implemented and pointed out that fraud costs the insurance industry huge sums of money.

Despite their complaint, the panel of judges upheld the remaining eight convictions against John Manning and did not reduce the 30-month jail sentence he is now serving for false accounting and forgery.

Prosecutors claimed that Mr. Manning, who ran his own maritime insurance brokerage business from his home in Essex, failed to place insurance premiums for shipowners, obtained coverage for a lower value and arranged coverage with unacceptable insurers.

Mr. Manning's lawyers claimed that the court did not have jurisdiction to try charges relating to the procurement of checks because they were signed by a client in Athens, Greece.

Lord Justice Brown agreed with the defendant, noting that while procurement of the checks began with a dishonest scheme conducted in the United Kingdom, the fraud was not actually completed until the client signed the check in Greece and that established law meant that the English courts had no jurisdiction to try these charges.

The judge described the state of the law as "deplorable" and pointed out that if Part 1 of the 5-year-old criminal act had been implemented it would have given the judges jurisdiction.

A spokesman from the government Home Office, which oversees criminal law enforcement, said that the "present government was looking at ways of implementing Part 1 of the legislation" but acknowledged that there was "no timetable yet" for its implementation.

—By Carolyn Aldred

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Agents/Brokers Wanted

Risk exposure gains altitude at airports

By MATTHEW MacDERMOTT

LONDON—The growing privatization and expansion of airport facilities worldwide is creating many new risk exposures and, consequently, new worries for risk managers.

Willem K. Lengton, corporate risk and insurance manager for Amsterdam Airport Schiphol, which owns and operates the Amsterdam Airport, told delegates at the first Global Aviation Insurance Conference in London last month that the old model of state-owned, uninsured airports is rapidly being replaced.



The international trend toward privatization of airports as the number of air travelers increases is fueling major expansion and development of airport facilities, he said.

Airports now are providing services such as retail stores, restaurants and business facilities.

Mr. Lengton said privatization brings new risk exposures as airport operators move from bureaucratic to commercial management structures.

He said new liabilities for privatized airport operators, such as directors and officers liability, errors and omissions liability, and political and currency risks represent additional exposures that risk managers must address.

Amsterdam Airport Schiphol is aiming to be a leading player in the international privatization of airport facilities. It already has a 40% shareholding in New York's JFK Interna-

See **Airports** *on next page*

Equitas

Continued from previous page

As the names liable for meeting such long-tail claims would be those who were on the syndicate involved during the year when the coverage was originally written, policyholders may not be able to locate them, Mr. Hertz said. The risk is highest for policyholders with a claim on long-tail business going back to the 1960s. Even if the name is not dead or bankrupt, the policyholder would face the potentially prohibitive cost of suing each name individually, he said.

In addition to possibly exposing old names to liability, Mr. Hertz said a shortfall in Equitas' reserves could also break through Lloyd's efforts to "ring fence" the market's pre-1992 losses from Lloyd's current assets and from causing losses to names underwriting in later years.

Unpaid claims could breach two Joint Asset Trust Funds set up in 1993, one to back U.S. reinsurance and the other to back U.S. surplus lines business, according to Mr. Hertz. Each fund must be maintained at not less than $104 million, while their combined value at the end of 1997 was $224 million.

"If either the reinsurance or surplus lines JATF falls below the requisite levels because of claims on 1992 and prior business, the ongoing market will be required to top it up in order to continue to do the type of U.S. business it supports," he cautioned.

The attorney also maintained that notwithstanding the immense effort put into accurately estimating the reserves required for Equitas and the fact that Equitas' surplus in the year ending March 31, 1997, has increased 5% to £617 million ($977.6 million) from its 1996 launch, "the inherent uncertainties in Equitas' long-tail business—principally the APH (asbestos, pollution and health) business—is still a source of concern for some in the market."

He claimed this view is confirmed in part by the October 1997 rating reports produced for Lloyd's of London by the three leading credit rating agencies, Standard & Poor's Corp., A.M. Best Co. and Moody's Investors Service Inc. All the agencies said in their reports that although Equitas is a separate company, if it runs into financial difficulties it could pose problems for Lloyd's (*BI*, Oct. 6, 1997). The rating agencies maintained either that Lloyd's would be obliged to make good any shortfall in Equitas' accounts or that because the market perceives Lloyd's and Equitas as one entity, Lloyd's couldn't avoid adverse fallout from problems within Equitas.

Another conference speaker, Rafael Villarreal, vp and senior analyst for Moody's in London and an author of its October 1997 report on Lloyd's, said the fact that the success of the market's R&R plan is dependent on bringing finality to claims against names is not a very solid foundation.

Mr. Villarreal expressed concern about the timing and magnitude of Equitas' cash flows.

Equitas' anticipated payment of between £6 billion and £8 billion ($10 billion to $13.33 billion) within five years could deplete funds, prevent the capital appreciation needed, and trigger a proportional claims payment policy, Mr. Villarreal warned.

While this is Mr. Villarreal's estimate of payments, Equitas has said it has no disagreement with the figures.

As of Mar. 31, 1997 Equitas had £12.7 billion in assets ($20.12 billion) and £12.1 billion ($19.17 billion) in liabilities, giving it a surplus of £617 million ($977.6 million).

"This could create a tiered ranking, giving economic seniority to short-tail policyholders," he added.

Mr. Villarreal said the weaknesses of Equitas include the absence of its own cash flows, weak capitalization in relation to its risk profile, potentially greater volatility than anticipated in investment values, and the subordination of policyholders' claims to protection of names.

Equitas' spokesman disagreed with Mr. Villarreal's assumptions as to what might trigger a move to proportional claims payment.

The spokesman said, "As long as we pay what the reserving (procedure) projected is needed to pay for these short-tail claims, we will have the money left over to pay the long-tail claims."

The spokesman added that those behind Equitas "believe our investment strategy is appropriate for the book of business that we have reinsured, and we have always said that we would consider investing a small portion of our portfolio in other types of instruments than fixed income when it is appropriate to do so."

He said that in addition to the 5% increase in surplus cited by Mr. Hertz, Equitas' liabilities have decreased as it has paid claims, so that the ratio of surplus to net outstanding liabilities increased to 0. 071 to 1 as of March 31, 1997, from 0.056 to 1 at the start.

"We hope as time passes to continue to improve our solvency margin to give assurance to both reinsured names and to policyholders," he added. BI



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Airports

Continued from previous page

tional Air Terminal, where Mr. Lengton is director of risk management even though he is based in Amsterdam. It also has minor shareholdings in international air terminals in Brisbane, Australia, and in Vienna, Austria.

Executives at Amsterdam Airport Schiphol also are doing a lot of master planning and privatization consulting work at airports throughout the world. They are now working on 50 consulting projects in 27 countries.

As a result, the growth of such consulting work further highlights the need for E&O and D&O policies for airport operators, Mr. Lengton said.

He said airports throughout the world are expanding their capacity as well as broadening their traditional role.

"Airports are changing, and so, too, are their exposures," he said. "Airports were once a big box. You had cars, taxis and buses on one side and aircraft on the other, and you simply went through that box. The box is still there, but it is now a big money-making machine."

He said the biggest change has been in the growth of large shopping malls within airports.

"There is a large (shopping) public, so you can make a successful enterprise," he said. "There are tourists who have time and money, and businessmen who have money."

Mr. Lengton said modern airports now typically contain shopping areas, bars, restaurants, hotels, art galleries, railway stations, and business meeting rooms and facilities. Amsterdam Airport Schiphol even has its own casino.

He said airports' traditional exposures, such as fire, rescue, damage from birds striking planes, runway layout and maintenance, refueling, and security, are still prevalent.

But the changing face of airports is creating a greater concentration of assets and people in one location. "As airports become bigger and bigger, the risks will multiply," Mr. Lengton said

He said the expansion of airports increases the need for improved general safety as the risk of property and personal injury liabilities increases. In addition, the expansion of services brings potentially larger business interruption exposures BI

London inaugurates aviation conference

LONDON—The first Global Aviation Insurance Conference was held June 25-26 at the Tower Thistle Hotel in London.

The conference, organized by IBC UK Conferences Ltd. of London, attracted 52 delegates from the United Kingdom, Western Europe, the United States, Canada, India, Israel, Russia, Ukraine and Slovenia.

Attendees included aviation insurers, brokers, lawyers, consultants and loss adjusters, as well as risk managers and directors of airline companies, airport operators and aerospace manufacturers.

IBC plans to make the conference an annual event but has not yet finalized arrangements for next year.

For more information, contact IBC UK Conferences Ltd., 44-171-453-2706; fax: 44-171-323-4298. BI

Safety

Continued from page 45

"(Managing the risk) is not a question of expense, as our mere existence as an airline depends on the fact that we can safely transfer people from one place to another and not be subject to any sort of violence or terrorism on the way."

Mr. Regev said El Al is happy to share with the public and other airlines many of the risk management strategies it has devised.

"We are not very secretive about many methods that we use, because what we do want is to deter perpetrators from doing their act."

El Al places much emphasis on its own security forces.

"We never have one of our aircraft in another country not guarded by our own security," Mr. Regev said. "We have to have our own security."

He said the Australian government will not allow El Al to have its own security forces at Australian airports; therefore, El Al does not fly there.

El Al also regularly rotates its security staff to combat complacency.

"No chief of security stays in charge of any one department for more than three years," Mr. Regev said.

"One of the biggest dangers to security is complacency, so we don't let (staff) become too content with what they are doing."

One of El Al's major security focuses is airline cargo.

The airline does not take any cargo on board without putting it through a decompression test chamber, which simulates air pressure at altitude.

El Al also has a policy of not meeting customers' demands for cargo to travel on specific flights.

"If someone comes in and wants cargo on a particular flight, you can be sure that it won't be," Mr. Regev said.

El Al also fosters security awareness among its sales force.

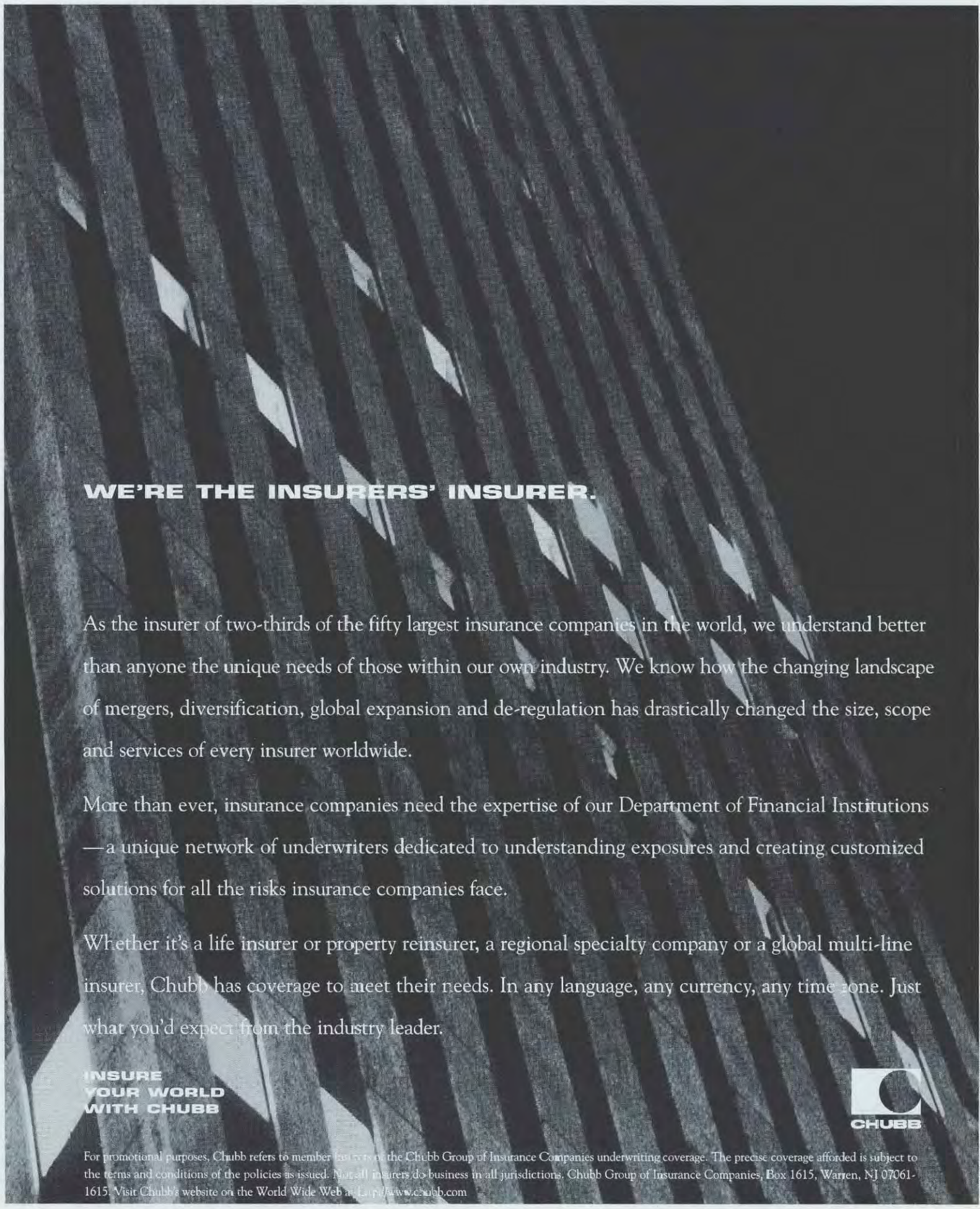
"If someone is acting suspiciously when buying a ticket, our staff will put an asterisk next to their name for when they check in," Mr. Regev said.

He said El Al has successfully identified passengers carrying explosives using this method.

Indian Airlines had a spate of accidents in the late 1980s and early 1990s, leading to a high claims ratio.

In the six fiscal years from 1988 to 1994, Indian Airlines paid combined hull and liability premiums

See **Safety** *on next page*



Aon

Continued from page 45

Companies in Germany are subject to a 15% premium tax and other levies, which can raise insurance costs by 30%. As a result, Mr. Grothaus said demand is growing for multiline policies, which have lower premiums than buying separate policies would in total.

Many of Germany's "new" insurance products actually are crossovers from Great Britain and the United States, said Mr. Grothaus.

"A prime example is product tampering insurance and product recall insurance," he said. Another example is environmental impairment liability insurance, which covers pollution cleanup costs—with a deductible of 100,000 deutsche marks ($55,200)—on a company's property after an accident. Aon Jauch & Huebener introduced the product last year in cooperation with American International Group Europe.

In most cases, Mr. Grothaus contends industrial clients have left traditional insurance in key areas and have built up systematic risk management systems. "And if a corporation doesn't want or can't carry a risk itself, it now looks at risk financing as an alternative."

Product recall and product tampering insurance have gained ground with German clients largely due to spectacular recall and product tampering cases and legal changes. Last Aug. 1, Germany introduced a new product safety law that affects new and used products that consumers use and sell in the market, Mr. Grothaus said.

"A product is only safe when manufacturers consider all possible health hazards," said Ernst-Henning Heinsius, regional liability director for Aon Jauch & Huebener in Hamburg. "For the first time authorities have the power to recall products."

'A product is only safe when manufacturers consider all possible health hazards,' says Ernst-Henning Heinsius. 'For the first time authorities have the power to recall products.'

While Mr. Heinsius doesn't expect an increase in government recall activity, he sees a growing need for higher safety and quality control measures as consumers become more aware of the law, which makes it easier for them to sue. "Not only do companies need to check their production and distribution channels, they need to look at suppliers and those selling product right down to the consumer."

Among the necessary measures, Mr. Heinsius counts reworking of emergency recall plans for product tampering and extortion cases, in which products must be removed so the threat cannot be carried out. Aon Jauch & Huebener is focusing service and consulting efforts on working out continuct tampering insurance for the food industry, said Mr. Heinsius. In Germany there are more than 200 cases of attempted extortion, primarily against food companies, each year.

"While the product itself has not changed much over the years, the increase in extortion cases has been dramatic. Underwriters are also more willing to cover risks with higher capacity and a variety of conditions, including advertising costs and costs for rebuilding image," Mr. Heinsius said.

Depending on the solution, recall insurance can cover costs for publicizing recall notices, transport and intermediate storage, checking and sorting operations, replacement, or other financial cost infringements. The newest improvement is kidnap and ransom insurance, now available in Germany in anticipation that regulatory insurance authority BAV in July will lift its ban on such coverage in the country (*BI*, March 2).

Other legal changes affecting the German insurance industry include a new transportation law that takes effect July 1. After the law takes effect, there will be uniform liability for the transport of goods via all transportation methods, said Uwe Rathjec, director of the Hamburg branch of Aon Jauch & Huebener. In the past, different transport methods had different liability levels. "The reform means greater liability for transport and shipping companies," he said.

Aon Jauch & Huebener developed new insurance with a liability of 10 million deutsche marks ($5.5 million) per kilogram of transported goods with a 2 million deutsche mark ($1.1 million) limit per claim. The policy offers transport and shipping companies coverage for personal liability and property insurance for damaged goods and related damages based on an all-risk policy, including certain financial losses. It will be available July 1.

One of the fiercest battles for clients is raging in property insurance with some of the softest rates in a decade. New products are seen as a key for expanding business of many insurers. Brokers, too, see new avenues. New Aon-brokered products include strike insurance, which covers financial business insurance losses when suppliers are shut down by strike. The product applies only to Western European companies. The coverage is the first of its kind available in Germany and previously was offered only at Lloyd's of London. BI

Safety

Continued from previous page

of $56.2 million. During the same period, the airline had claims totaling $174.1 million, including five total aircraft losses.

Executives of Indian Airlines were very concerned by a string of domestic crashes during that period and since 1993 have implemented a risk management plan to address the situation.

In the past four years, Indian Airlines has had an accident-free record and achieved a dramatic reduction in claims.

For the three fiscal years from 1994 to 1997, Indian Airlines paid combined hull and liability premiums of $91.1 million.

During the same period, the airline had claims totalling $6.7 million.

Risk management steps taken voluntarily by Indian Airlines since 1993 include:

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- Installation of flight data recorders on all Boeing 737s.
- Installation of modern X-ray machines for detection of explosives at airport terminals.
- Improvements in engineering and operational facilities, resulting in increased aircraft utilization and dispatch reliability.
- Introduction of productivity incentives for pilots and engineers to improve their morale and efficiency.
- Implementation of computerized crew rostering to ensure proper rest between flights.
- Improvement in navigational aids and facilities.
- Establishment of a "mock up" training facility, including training equipment, flight simulators and facilities for evacuation training on land and water.
- Establishment of modern hangars at Delhi, Bombay and Calcutta.
- Publication of quarterly "Flight Safety" magazine, covering critical areas of flight operations and safety, for all employees. BI

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Vesta

Continued from page 2

group will report:

• A cumulative $49 million aftertax hit to earnings for the years 1993 through 1997.

Of this, $29 million relates to Vesta's accelerated recognition of premium income. Earnings related to this income should reappear in the company's results for 1998 and future periods, Vesta said.

The other $20 million reduction relates to revised actuarial assumptions used in calculating reinsurance premium and loss reserves, the company said.

• An additional $9.8 million aftertax hit to first-quarter 1998 earnings to reflect the accounting changes.

On June 1, Vesta, a property/casualty insurance and reinsurance group, announced that it had discovered possible "accounting irregularities" that it estimated would cause a $15.3 million cut in reported earnings for the last quarter of 1997 and first quarter of this year (*BI*, June 8).

Vesta, which did not describe the irregularities, also reported that Robert Y. Huffman, its president and chief executive officer, had resigned. Two other Vesta officers, including its senior vp-administration, also resigned.

The news cut Vesta's stock price in half from $52.69 a share on May 29 to $26 per share by the end of the following week, a reduction in market capitalization from $972.5 million to $481 million. The price drop also triggered a barrage of proposed shareholder class-action lawsuits charging the company with filing false financial statements.

Vesta had earlier sparred with the Alabama Insurance Department over its statutory reinsurance accounting methods and was forced to take a one-time $68 million charge against 1997 earnings. The charge reversed the cumulative impact for prior years of Vesta's method of recording premium income.

The charges against earnings 'do not affect the financial strength of Vesta,' says Norman W. Gayle III.

Previously, Vesta had recorded premiums for assumed reinsurance business as earned in the year the business was written even when the treaties overlapped two calendar years, the company said.

While it agreed with Alabama regulators to stop this practice in its statutory reports, Vesta maintained in its Securities and Exchange Commission filings that the change did not affect its reporting under generally accepted accounting principles.

After reviewing the matter with its auditor, KPMG Peat Marwick, though, Vesta concluded that it should use the same method for its statutory and GAAP reports. The result was the announced reduction in earnings of $9.8 million for the first quarter and $49 million for the previous years.

The earnings hits "do not affect the financial strength of Vesta," said Norman W. Gayle III, who took over as acting CEO after Mr. Huffman's departure. "Vesta continues to have stockholders' equity in excess of $300 million and is in compliance with all of its financial covenants in its loan agreements. Our financial position and our franchise remain strong."

Alabama Deputy Insurance Commissioner David Parsons said a regular examination of Vesta is expected to be finished by September.

Standard & Poor's Corp. has downgraded Vesta's financial strength rating to A- from A+, citing an "expected decline in operating performance and financial flexibility."

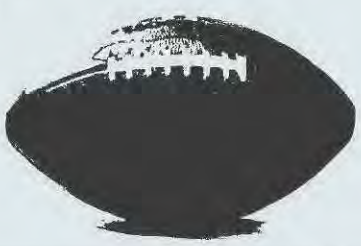
Duff & Phelps Credit Rating Co. also downgraded Vesta's claims paying ability rating to A from A+, while the insurer's A rating from A.M. Best Co. remains under review.

Vesta also announced last week that it has hired James E. Tait as acting chief financial officer. Mr. Tait is a former managing partner of Coopers & Lybrand L.L.P. and is president of Tait Advisory Services L.L.C.

Vesta's operating units include Vesta Fire Insurance Co., Shelby Casualty Insurance Co. and Vesta County Mutual Insurance Co. BI

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POS plans show lowest satisfaction rate: Survey

By ROBERT KAZEL

BOSTON—Employers should consider replacing point-of-service health plans with open-access plans, because workers are dissatisfied with POS plan administration and gatekeepers, a researcher suggests.

Employees especially report trouble with POS plan billing and administration of claims for non-network providers and low satisfaction with primary care physicians, the researcher found.

Under POS plans, members typically can choose at the time service is needed whether to go to a primary care physician, who serves as a gatekeeper for access to network specialists, or see a non-network provider or specialist, with higher out-of-pocket expenses.

Open-access plans essentially lack the gatekeeper function, with plan members visiting specialists of their choice inside or outside the network, though employee costs typically are higher if they go out of the network.

Employers cannot ignore growing employee dissatisfaction with restrictive managed care plans that fail to demonstrate "concern for members' well-being," contends Dr. Tod D. Cooperman, president of New York-based CareData Reports Inc.

American Association of HEALTH PLANS
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During the annual conference of the American Assn. of Health Plans in Boston last month, Dr. Cooperman discussed the results of a recent survey he conducted.

"Employers seem to like the POS option but are really becoming more and more troubled by the administrative problems that the members are having," he said.

"We do hear (employers) interested in considering more open-access products and even PPO (preferred provider organization) products."

Dr. Cooperman's survey received 23,000 responses from employees at 131 large employers nationwide. The survey was conducted last year in the top 26 managed care markets in the nation.

"In terms of their satisfaction, it was clearly higher with open-access plans over HMOs and (also) over point-of-service plans, which traditionally and always in our studies had the lowest levels of satisfaction of these products," Dr. Cooperman said.

Actually, the majority of employees in open-access plans apparently had not made a conscious decision to join them because of the absence of gatekeepers, the researcher said. Only one-third of those in these plans said they joined for easy access to specialists, while most pointed instead to the inclusion of their physicians in the plans' preferred networks; financial issues, such as copayments; and prescription drug coverage.

Regardless of why they chose an open-access plan, the survey clearly found that these members were happiest with both administrative service and medical treatment, Dr. Cooperman said. Open-access plan members said they were highly satisfied with their programs 65% of the time, compared with 58% for HMO members and 48% for POS plan members.

Open-access plan participants also were more likely to say they would remain in their plans—82%, as opposed to 72% for POS plans.

"Even a 1% increase or decrease in retaining members means millions of dollars if you have a large plan," he said.

Open-access plan members were more likely than those in other types of plans to: recommend their plans to others; perceive that their plans have value; and like their primary care doctors. With this level of loyalty, open-access plans are in a much better position to decrease their marketing expenses and increase margins, Dr. Cooperman said.

The key issues driving consumer satisfaction for all kinds of managed care plans were the plan's display of concern for its members, satisfaction with service, happiness with medical care, and satisfaction with primary care physicians, he said.

POS plans received the lowest

See **POS** *on next page*

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★ *Source Business/Occupational breakdown of qualified circulation, November 24, 1997 Issue, as submitted to BPA for December 1997 BPA Publisher's Statement*

Provider mergers pushing up prices: HMO

By ROBERT KAZEL

BOSTON—Mergers by health care provider organizations are quietly running rampant in health care markets across the country, forcing up prices and putting unprecedented pressure on HMOs, a managed care executive says.

George Halvorson, president and chief executive officer of Minneapolis-based HealthPartners, told an audience at the American Assn. of Health Plans conference June 14-17 in Boston that the health care industry has observed health maintenance organizations consolidate en masse in the past couple of years without noticing that providers are taking more control of their markets by doing the same.

"The provider consolidations that are happening in our (Twin Cities) marketplace are not unique," he said. "You can go to market after market around the country and find that you're down to two or three dominant care systems.

"We're seeing hospital systems acquiring clinics. We're seeing clinics acquiring clinics. We're seeing hospitals acquiring hospitals. What we're seeing basically is consolidation resulting in regional monopolies and oligopolies on the caregiver's side. This is going on below the radar screen. The HMO consolidation is pretty visible. The provider consolidation is pretty invisible because nobody notices when an individual clinic is acquired," he said.



According to Mr. Halvorson, 90% of smaller employers and more than half of large employers offer only one health plan to workers, partly as a result of a lack of choices within their markets. In addition, any time that providers obtain "sufficient market leverage," prices will rise for both managed care plans and employees, he said.

"It's an inevitable consequence," he said. "It's a natural backlash to the negotiating power of managed care organizations."

In Minneapolis, 135,000 employees of companies that participate in the Buyers Health Care Action Group, a coalition of more than two dozen large employers in the Twin Cities area, are able to overcome new monopolistic trends by choosing among "care systems" for medical insurance, Mr. Halvorson said.

In January 1997, BHCAG introduced a new system of care in which employees—using vouchers from employers—could select from numerous combinations of physician groups and hospitals after comparing price differences, service availability and quality ratings.

Extensive information about each care system is available from multiple sources, including the Internet and kiosks at worksites. The desired goal could be likened to a farmer's market, with shoppers able to browse among many stalls, or "managed competition at a very direct level," he said.

HealthPartners for the past several years has had contracts to perform the coalition's administrative processing. At the end of 1999, however, that relationship will end, Mr. Halvorson said at the session. BHCAG announced last year that it planned to rebid the contract (*BI*, Aug. 25, 1997). HealthPartners did not submit a bid.

Although Mr. Halvorson said he still has faith in BHCAG and the care system approach, recent philosophical differences have made it awkward to work with BHCAG. He said BHCAG recently began aiming its marketing at customers who were already enrolled in HealthPartners' non-coalition health plans. Instead, Mr. Halvorson said, HealthPartners wants to market to entirely new groups of potential enrollees.

"BHCAG decided to do some private-label branding and to almost, in effect, become a competitor to us while using our infrastructure. We talked it over and decided it didn't (make sense) for us to be competing against ourselves," he said.

In addition, disagreement arose over provider fees, he said. HealthPartners wanted to limit how much providers in the program could charge, while BHCAG wanted to take a free-market approach and eliminate limits, he said. The HMO also found it difficult to sell its products and project objectivity to clients while serving as central administrator of the coalition's program, he said.

Steve Wetzell, executive director of BHCAG, said last week that HealthPartners executives "view us as a competitor, and our employers have a real problem with that." He said BHCAG in no way competes with the health plan, though large employer coalitions commonly engender those feelings among HMOs that wish to market new products aggressively.

At the AAHP session last month, Dr. Mark Robbins, a health care researcher affiliated with Boston-based John Snow Inc., reviewed the findings of interviews of benefits executives from companies in Boston, Minneapolis, San Francisco and Orlando, Fla. The employers represent health plans covering a total of 1 million lives.

Dr. Robbins found the benefits profession puzzled about how to use basic sources of industry data.

"We really don't know very well how consumers make decisions," he said. "We don't know if healthy consumers make decisions in different ways than chronically ill consumers. There's some information to suggest that consumer information that's disseminated by the company, particularly in the setting of downsizing, is not very trusted and needs to come from an outside agency. (But) as we know, the roles of NCQA (National Committee for Quality Assurance), HEDIS (Health Plan Employer Data & Information Set), FAACT (Foundation for Accountability) and coalitions are unclear as to which indicator to use." BI

POS

Continued from previous page

marks for customer satisfaction, with poor handling of out-of-network claims one of the most frequent complaints, Dr. Cooperman's survey found.

Employees, dissatisfied with the administrative side of the POS plans, appeared to carry the blame over to their primary care physicians and gave them relatively poor marks, he said.

'A good number of members don't know what kind of plan they're really in,' says Dr. Tod Cooperman.

An exception appeared to be cases when a managed care plan permits female members to choose obstetrician/gynecologists as their primary care physicians. In such instances, plan members had high satisfaction and lower levels of plan utilization because they often relied on the Ob/Gyn instead of a specialist for treatment, he said.

Pointing to a specific market as an example, Dr. Cooperman said United Healthcare Corp.'s POS plan in Houston achieved a 56% overall satisfaction level in the survey, compared with 67% in its local open-access plan.

But one problem managed care companies and employers face, if they introduce open-access plans, is differentiating them from similar programs that lack a gatekeeper, such as PPOs, according to the researcher.

"A good number of members don't know what kind of plan they're really in, let alone the name of the plan they're really in," he said, adding that defining exactly what is unique about open-access plans in today's market will be a continuing challenge for the plans and their sponsors.

Nonetheless, every HMO should be offering an open-access plan, he said. It also should not charge members "self-referral" fees when they venture outside the provider network, he said.

As for dissatisfaction with the traditional POS plan, Dr. Cooperman was pessimistic, saying it "either requires a tremendous correction in systems—or maybe it's just an inherent problem that can never be fully solved." BI

AAHP augments conduct code

By ROBERT KAZEL

BOSTON—The American Assn. of Health Plans convened its 1998 national conference with about 3,400 attendees, 290 companies exhibiting products and a second year of seemingly ominous events.

Last June, a moderate earthquake in the Seattle area interrupted educational sessions on the first day of the conference and shook up attendees, though no one was hurt. This year, heavy rains that broke three-decades-old records pounded the Boston area, keeping attendees in their hotels and at the convention site.

Massachusetts' governor declared a disaster shortly before the conference began.

The conference, held June 14-17 at Boston's John B. Hynes Convention Center, featured about 65 educational sessions on issues ranging from health policy and regulation to marketplace issues to medical management.

Sessions included such topics as, "Managing a Media Feeding Frenzy," "Determining Medical Necessity: Who Decides" and "Considerations for Pursuing or Renewing Medicare Contracts."

Attendees included managed care and hospital executives, physicians, drug company representatives, state and federal officials, and public health workers. Featured speakers included former Vice President Dan Quayle and former U.S. Sen. Bill Bradley, D-N.J.



During the convention, the association's members voted to add new health plan guidelines to the code of conduct it requires member managed care organizations to follow. The new requirements include:

- Health plans must have appropriate safeguards to protect patient confidentiality.
- Plans must allow members to choose among primary care physicians and specialists and to switch doctors or physician groups.
- When a doctor leaves a network, the network must have procedures to facilitate a member's transfer to the care of another doctor.

In addition, a new code of conduct for managed care marketing and sales staff was approved by member plans.

Among its provisions, it states that plans must "knowingly do no harm" while selling its products; make no false or misleading statements; disclose the price of plan membership, including copayments and deductibles; and respect the confidentiality of any privileged information.

Phil Nudelman, chairman and president of Seattle-based Kaiser/Group Health, an affiliate of Kaiser Permanente, was elected to a two-year term as chairman of the AAHP, which represents about 1,000 health plans.

The 1999 AAHP conference will be held June 20-23 in San Francisco. For information, contact the AAHP's Education Department at 202-778-3200.

Arbitration group eyes new policy on benefit disputes

NEW YORK—The largest independent group that arbitrates legal disputes is expected to announce it will stop doing mandatory arbitration for health care disagreements.

The New York based-American Arbitration Assn.'s new policy, which has not yet been made final by association leaders, probably will take effect later in the summer, said Scott Carfello, regional vp in Chicago. A report to be released this month by a committee consisting of the AAA, the American Bar Assn. and the American Medical Assn. will recommend ending arbitration in cases where managed care contracts mandate arbitration instead of court action, he said.

The association will continue to take cases when both the patient and health plan seek arbitration of their own free will and "parties agree knowingly, either in or out of contract," he said.

Part of the reason the group is shying away from mandatory cases is a California Supreme Court decision last year that blasted the mandatory arbitration process of Oakland, Calif.-based Kaiser Permanente as being intolerably and intentionally slow, Mr. Carfello said. A Kaiser patient had died while waiting for a mandatory hearing with Kaiser's own arbitration board. The group also thinks that the stakes are too high to force binding arbitration on a patient whose health is at stake.

—By Robert Kazel

'97 P/C surplus a record: ISO

NEW YORK—The U.S. property/casualty insurance industry's surplus set a record high last year, according to a new study by the Insurance Services Office Inc.

ISO reported that the industry's surplus reached $310.2 billion last year, up $54.7 billion—or more than 21%—from 1996. The industry's aftertax net income also grew 45.7% to $35.6 billion in 1997.

According to ISO, factors in the industry's performance included a relative lack of catastrophe losses—$2.6 billion last year compared with $7.3 billion in 1996—and increased capital gains. ISO also noted an improvement in the industry's combined ratio to 101.7% last year from 105.8% in 1996.

—By Mark A. Hofmann

Excess/surplus lines market's short-term outlook is 'dim,' rating agency says

NEW YORK—The excess and surplus lines market's short-term prospects are "dim" overall, says a report by rating agency Moody's Investors Service Inc. in New York.

"Although credit quality is currently stable, the future strength of the evolving E&S market is uncertain, reflecting both deteriorating pricing conditions and the volatility inherent in E&S risks," says the report, which predicts that insurer and broker consolidation will continue.

"This market has recently undergone a series of changes due to increased non-E&S competition, soft pricing in the overall market and broker consolidation, which promise to continue at least through the medium term," says the report.

"There are, however, a few potential growth areas for capitalization. They include health care, financial products, some environmental areas and employment practices liability coverage."

—By Judy Greenwald

Employee rights key in discipline policy

Problem-solving approaches better than punitive ones, consultant says

By RODD ZOLKOS

MINNEAPOLIS—With employee rights getting greater attention from courts and mediators, employers must pay increased attention to assuring due process when disciplining workers.

"Employee rights are being honored at a higher and higher level. They have more and more options. We have to recognize that," said Eric Harvey, president of Dallas-based The Walk the Talk Co., an employee relations consultant.

In crafting a corporate approach to disciplining workers, a company must be cautious to consider how its approach will affect all of its employees, not just the problem workers the policy is meant to address, Mr. Harvey said in a presentation on "Managing Your Employees' Rights Without Giving Up Your Right to Manage" at the annual conference of the Society for Human Resource Management last month in Minneapolis.

He noted that whatever disciplinary approach a company adopts must be in keeping with the company's values.

"We have an obligation to create a value-centered approach, but we also have certain requirements to provide workplace due process," the consultant said.

Employees must know their employer's expectations and must be notified of any failure to meet those expectations. And workplace rules and regulations must be administered consistently, he said.

But establishing those rules and regulations is another occasion for caution, Mr. Harvey suggested, noting, "There tends to be an inverse relationship between how many rules an organization has and how good the culture is."

Mr. Harvey noted that when coworkers chat, the first thing they talk about is the weather. The second is some perceived injustice in the workplace. "Pay attention to that," he said.

Mr. Harvey suggested there are three tools for administering workplace due process: discipline/discharge, dispute resolution and performance appraisal.

In establishing a dispute resolution procedure, Mr. Harvey said, the critical criteria are: timely resolution, binding judgment, stakeholder involvement, external defensibility, an overall perception of fairness and a system that is in sync with organizational vision, values and mission.

The dispute resolution process can take any of several forms, such as mediation, an employee advocate or ombudsman, arbitration, or peer review. "What a lot of companies are doing now is bringing these things together," Mr. Harvey said.

Whatever method is selected, the ultimate test for the dispute resolution system is "are people using it, and do people believe it's fair?" Mr. Harvey said.

He added that the right approach addresses both what's right for the company and what's right for the employee.

And whenever employee performance issues arise, it's important that the employer's approach be problem-solving rather than punitive.

While punishment might lead to a decrease in the problem behavior in the short term, the longer-term outcome is likely to be anger, apathy or absence, Mr. Harvey said.

To successfully manage employees in the current environment, companies must eliminate punitive procedural elements and punitive behavior by supervisors, the consultant said.

That means eliminating such practices as documenting performance without talking to the employee and language like, "I'm going to have to write you up," or a "punishment fits the crime" perspective.

"The highest degree of supervisory behavior should be on recognizing good performance," Mr. Harvey said. "You have to have more than just, 'That's what you did wrong.' "

Falling below the emphasis on recognition, managers' next key activity is to coach workers for performance enhancement, then coach for problem-solving, Mr. Harvey suggested. At the very bottom of the inverted pyramid of managers' activities is formal discipline.

As a real life example of that approach, Mr. Harvey cited the work of former Chicago Bulls Coach Phil Jackson in managing the diverse elements of his highly successful basketball teams.

And he said, of companies included on lists of the world's "most admired," very few rely on punitive approaches, while far more emphasize a positive recognition-oriented tack. BI

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Adhering to contract key in managing free-lancers: Lawyer

By RODD ZOLKOS

MINNEAPOLIS—Keeping within the terms of carefully crafted contracts with free-lance workers can help employers steer clear of liabilities that can arise due to a blurring of the lines between employees and independent contractors, an attorney says.

The key concern for employers that use independent contractors such as free-lancers is the possibility that confusion over those workers' status can leave the company exposed to various employment liability issues or liable for providing employee benefits to those workers.

While the contracts under which independent contractors are hired are critically important, Camille Olson, a partner with the Seyfarth, Shaw, Fairweather & Geraldson law firm in Chicago, noted, "Contracts do not win cases."

But, Ms. Olson added during a presentation at the annual conference of the Society for Human Resource Management last month in Minneapolis, "Contracts can lose cases, so they are very important."

Contracts with independent contractors should accurately describe what's required of the employer and the contractor, the attorney advised. The contract should not be terminable except for a material breach or on written notice of no less than 30 days, she said.

The contract also should confirm the contractor's right to compete. Otherwise, Ms. Olson said, the worker tends to look like an employee of the company in the eyes of the courts. In addition, the contract should explicitly state that the contract worker declines any offer of employee benefits.

The agreement must be meaningful, and the contractor must understand and read it.

"No one can sign an agreement they don't understand," Ms. Olson said. "They also can't sign an agreement that is blank, that has blanks in it—'We'll fill it in later.' "

It's also critical that the contract be negotiable. "If every con

See **Contracts** *on next page*

Commentary

Bailey deserving of IMCA award

Have you ever tuned in to "It's Your Money" on the radio?

The host of this call-in radio show is William E. Bailey, who last week was honored by the Insurance Marketing Communications Assn. as the 1998 Golden Torch Award recipient.

The award is presented annually by IMCA to a person who has contributed to the insurance business by improving standards for communication excellence and effectiveness, speaking out eloquently and convincingly on behalf of insurers and improving public understanding of insurance issues.

I am absolutely delighted that Bill has received this prestigious award. He is a most deserving recipient, particularly because he can identify insurers' faults and encourage insurers to better serve their customers.

I know this is true because I have known Bill since my early reporting days at *Business Insurance* more than 20 years ago. Bill was vp and senior claims counsel at Commercial Union Insurance Co. when I interviewed him, and he never quoted to me chapter and verse. He always had a slightly different perspective on the issues. I pegged Bill then as a guy who would tell it like he sees it, whether or not his viewpoint echoed insurance industry conventional thinking. I should have known then that he would become a nationally known authority and public spokesman on insurance issues.


Kathryn J. McIntyre

Bill entered this phase of his career after Commercial Union, when he became a special counsel to the Insurance Information Institute. In that role, he has traveled the country to debate insurance issues. He also was codirector of the Hurricane Insurance Information Center in Miami, supervising a communications office that assisted people in the aftermath of Hurricane Andrew.

Bill started his radio show in the fall of 1997 because he believes consumers want to understand insurance facts. His show, first named "Are You Protected?" started on just six radio stations on the Talk America Network of Boston. It is now broadcast daily on more than 85 stations. I'm pleased to report that *Business Insurance* staffers have been guests on his show. Other guests have included leaders of corporations and trade associations, government representatives and prominent attorneys, including his brother, F. Lee Bailey.

For those who are wondering, as I did, Bill says he and his brother agree far more than they disagree on public policy issues. They once had to restage an interview together to spice it up because, on the first go-around, it didn't generate enough controversy to hold the audience, Bill says.

Now Bill is holding audiences by helping consumers understand insurance issues. This, I think, is vitally important, as more and more insurance issues become public policy issues.

I am also happy to report that Bill is still telling it like he sees it.

At one point in Bill's very humble, sincere and emotional acceptance speech, he took a moment to remind the audience that insurers are not always perfect, and when they deserve criticism, he will be a critic. Specifically, he asked why insurers take a hard-nosed, no-coverage approach on claims from their clients that arguably are covered. He suggested that insurers should give their clients the benefit of the doubt when there is one.

He also challenged this audience to mentor someone as he said he had been mentored. He recalled that his insurance agent was the one who introduced him to the top management at Commercial Union. He noted, with a laugh, that at the time CU was more interested in meeting his brother.

Bill also gave special credit as a mentor to his friend Edwin S. Overman, chairman emeritus of the American Institute for Chartered Property Casualty Underwriters and the Insurance Institute of America. Ed was the recipient of the Golden Torch Award last year. Bill credited Ed with convincing him of the benefits of studying for the CPCU designation, even though Bill already was a graduate of Harvard College and Harvard Law School. Bill advises everyone to keep learning.

That is exactly what his talk show is helping consumers to do.

Publisher and Editorial Director Kathryn J. McIntyre and Editor Paul D. Winston publish columns on alternate weeks.

Weather

Continued from page 3

vide real-time information about approaching storms, he said.

Mr. Ryan noted, for example, that on the television station's World Wide Web site, WRC-TV provides a real-time weather map for its viewing area around the District of Columbia, as well as national satellite images and other weather-related information.

With a computer, he demonstrated how WRC-TV's home page (www.wxnet4. nbc4.com/home.html) and a national weather Web site maintained by Pennsylvania State University (www.ems.psu.edu/wx/index.html) can provide detailed weather information.

In the near future, more complete and accurate information also could be provided via television. More television stations could make use of small animated graphics that could pop up on television screens during regular broadcasting and show, for example, a radar map of a severe storm, instead of text-based trailers that currently move across the top or bottom of a screen with lists of areas at risk, he said.

Other technologies for spreading information cited by Mr. Ryan and others could include using personal electronic pager services to provide warnings of impending bad weather.

The Walt Disney Co. in Burbank, Calif., uses existing information technology to attempt to identify potential disaster exposures and plan its responses, said William Michael, manager-crisis management.

"Basically, L.A. has everything," said Mr. Michael, noting that he has to be prepared for earthquakes, hazardous material spills, volcanoes, fires and even hurricanes.

Mr. Michael said he makes considerable use of public information resources, such as Web sites maintained by the U.S. Geological Survey (www.usgs.gov) and the Federal Emergency Management Agency (www.fema.gov), to help identify potential exposures. Then he analyzes the impact of the exposure by asking such questions as: How will this affect company operations? How will it affect the employee base? he said.

Part of Disney's response has been to set emergency teams among its employees, and about 3,000 of Disney's 15,000 employees in Southern California are members of those teams, he said. Team members are trained in CPR and first aid to respond to emergency situations, said Mr. Michael. Employees also are encouraged to attended lunchtime seminars on a variety of disaster-related subjects, he said.

In addition, the company tracks potential weather problems through a variety of public and private sources, including local and city updates through two-way radio, a city emergency fax distribution system, pagers, cellular phones and the like, Mr. Michael said.

"As an emergency manager, I'm looking for new ways" to gather and disseminate information, he said.

One of the new ways information is being disseminated—private weather services—could mean new litigation, warned Glenn E. Tallia, senior counsel-atmospheric and space services and research for the National Oceanic and Atmospheric Administration in Washington.

Mr. Tallia said the private weather service industry is growing, with annual revenues of about $300 million.

But private weather services do not enjoy the same protections against lawsuits as the National Weather Service—a federal agency—does, he said.

Instead, the private forecasters could face common law liability if they fail to disseminate emergency information quickly enough or broadcast an inaccurate or false report that leads to someone's injury, he said.

Mr. Tallia said that while he does not know of any suits having been filed against private weather services yet, it's "probably just a matter of time" before litigation emerges. BI

Fees

Continued from page 3

fees and view recordkeeping as a loss leader if they also provide asset management services, according to the study.

The study also cites previous studies on the wide range of expense ratios for various investment options. For example, the study cites a Fortune magazine survey that showed expense ratios for funds investing in U.S. Treasuries ranged from a low of 0.15% to a high of 2.19% with an average expense ratio of 0.77%.

Other fund categories and their expense ratios include:

- Growth and income, low, 0.19%, high, 3.81%, average, 1.34%.
- Growth, low, 0.20%, high, 6.49%, average, 1.42%.
- General corporate bond, low, 0.21, high, 2.18%, average, 1.04%.

The wide range of expense ratios is related to the degree a fund is actively managed, the study notes.

"In actively managed funds, the investment manager expends more costs on research, investment selection and buying and selling," the study notes.

In addition, the study, citing an earlier work by Pension Dynamics Corp., detailed how much in total fees a 401(k) plan with 100 participants and $2 million in assets might pay. According to that study, total fees ranged from a low of $11,375 to a high of $42,775 with a median fee of $25,600.

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The Labor Department's "Study of 401(k) Plan Fees and Expenses," is available at http://www.dol.gov/dol/pwba.

Contract

Continued from previous page

tract is absolutely the same you're going to lose," the attorney said.

The contract should describe all payment to be received and the basis for that payment must ensure the risk of loss or variability of profit to the contract worker. There should be no payment guarantees and no payments for services not performed.

It's also important that an employer involve its managers in developing contracts for freelance workers.

"I think it's a very bad idea to take a contract and give it to a group of managers," Ms. Olson said. Instead, before putting it in place, managers should be given a chance to review every aspect of the contract and critique its appropriateness for their operations, she recommended.

The attorney also suggested that employers should invest in manager training and should develop an overall set of documents, policies and procedures to govern the relationship between the company and its independent contractors.

How the company advertises for its free-lance workers also can be a key to whether courts later agree that they were, in fact, not employees of the company.

"The issue that comes up every time is where do you place the ad for the independent contractor? If it's in a 'help wanted' listing, it will be construed as an ad seeking employees," Ms. Olson said.

When advertising for independent contractors, "use the words 'independent contractor,' 'independent consultant,' or something that indicates that that person is not applying for an employee position," she said.

And, she added, "You really ought to have a different application or questionnaire for independent workers."

Once free-lance workers are hired, 'they should absolutely be treated differently from employees in almost every way,' says Camille Olson.

Employers also should conduct precontract screening of free-lance workers, because they could be held liable for actions of the independent contractor.

Once free-lance workers are in place, "They should absolutely be treated differently from employees in almost every way," Ms. Olson said.

It's critical to abide strictly by the terms of the contract. "You absolutely shouldn't have side agreements," she said.

The employer also needs to be aware of keeping dealings with free-lancers at "arm's-length." If, for example, the company provides contract workers with supplies or office space on a free or discounted basis, again that could tilt a court's perception of the worker to that of an employee.

In terminating contracts with freelance workers, an employer must consider several issues to reduce any potential liability exposure.

First is the agreement's terms and any applicable company policies. Circumstances of termination, any verbal representations made to the contractor, length of service, the employer's past practices and applicable laws all can be considerations, as can any investments the contractor has made in connection with the job, Ms. Olson said.

If the contractor just bought a new computer or truck to perform the job, he or she could argue that they've made an investment and that the employer doesn't have a unilateral right to terminate that contract, Ms. Olson said.

The attorney also emphasized the need for contracts to be very specific about when they begin and end.

"No contract should continue indefinitely. No contract should be self-renewable," Ms. Olson said. "Every contract should begin and end on certain days."

She cautioned, "If you're just renewing a contract without any changes, that makes a person look an awful lot like an employee." BI

Report

Continued from page 3
spokesman pointed out.

The report suggests that a worthwhile audit system "would decrease the delays and increase the efficiency of benefit delivery" and ensure that employees receive the appropriate amount of benefits, he said.

"It doesn't behoove anybody to have an inefficient (audit) system," the spokesman said.

Legislators requested the independent study of the state's claim audit program after Senate hearings earlier this year at which claimant attorneys and regulators used audit data to blast claims administrators for delays, non-payment of benefits and failure to notify workers of their rights.

At the hearing, California Division of Workers Compensation Administrative Director Casey Young stunned legislators when he used 1997 audit data to estimate there could be as much as $84 million in unpaid compensation owed to injured workers (*BI*, Feb. 23).

Mr. Young was not available for comment last week.

But, undermining that notion, the commission's report said, "The current audit function does not measure systemwide performance" and the use of confusing definitions and relatively young claims may make estimates based on audit data "unreliable."

The commission also found that claim handling under the present system is now so complex that DWC auditors report that "overpayments to injured workers may be as likely as underpayments."

This suggests there is little that claims operations can do to improve the error rate, absent an overhaul and simplification of the claims process, observers say.

"When you have a system in place where the likelihood of underpayment is the same as that of overpayment, the system has to be changed," said Mr. Widtfeldt of the ACIC.

"We need a system in place where we can tell who the bad players are, and even among companies that are trying to do a good job, what problems exist there so that they can address those problems," agreed the CWCI spokesman.

Some members of California's workers comp community also complain that some payers, particularly self-insured employers, are being audited more frequently than others, leading many to believe the audits aren't really random at all.

By statute, half the audits performed by the DWC each year are supposed to be random, while the remainder are based on complaints and prior-year infractions.

The University of California, which self-insures its workers comp exposure, has been audited eight times in eight years, said John Roberts, the university's Oakland-based workers compensation manager. All but one of the university's nine claims offices has been audited, he said.

"We're probably not going to have one for the next couple of years because finally we've prevailed upon the DWC audit staff to give us a break," he said. "Also, from a cost-benefit standpoint, they're not making any money off of us."

That's because the fines imposed against the university have dwindled over the years to less than $5,000 last year, according to Mr. Roberts.

But the cost to the university of complying with the audits has been substantial, he pointed out.

Mr. Roberts said he doesn't think the DWC has any vendetta against the university. Rather, he thinks the university is being targeted because of the way random audit targets are selected under the current system.

"There's an electronic hat, and names go in that hat based on the number of adjusting locations an organization has," he explained. Because the university has nine claims offices, "we have nine names in the hat. . .which makes us more vulnerable to audits," he said.

And because the average number of claims being handled by each office is rather small, Mr. Roberts estimates that as many as 40% of the university's claims files have been examined.

By contrast, perhaps as few as 5% of insurer claims files have been audited on average, he said. "Carriers generally have fewer offices but huge claim populations," he said.

And since the 1995 introduction of open rating, which has stimulated competition among workers comp insurers in the state, many insurers have consolidated claims offices to cut costs and be more efficient.

"And so both the risk of being audited and the percentage of files that wind up getting scrutinized in a DWC audit are much greater in a self-insurance environment than they are with carriers," Mr. Roberts concluded.

Mr. Widtfeldt agreed that the audit program disproportionately targets large self-insurers over insurers.

"The audit program is flawed in the way it selects audit subjects," he said.

Another problem with the state workers comp system is that, in many cases, the cost of implementing the regulations exceeds the fines levied, creating a disincentive for claims-paying organizations to comply, Mr. Roberts pointed out.

In its report, the commission concluded that improvements could and should be made to the program to identify poorly performing claims operations and to bring them into compliance:

- Simplify benefit notices so they provide meaningful information to injured workers and generate data that can be used to track the timeliness and accuracy of benefit delivery.
- Simplify and streamline the benefit notice program. Implement electronic reporting of key indicators derived from benefit notice information, and use this data to prioritize targeted audit subjects.
- Screen complaints to determine if a claims operation should be audited as a "poor performer."
- Streamline benefit calculation by establishing a single weekly benefit rate, to be paid an injured worker for all types of benefits. The number of weeks of payment should be the only changing dimension, with the minimum and maximum payment rates remaining unchanged.
- Improve administration of the audit function by instituting auditor performance standards, updating equipment and computer systems, assessing the need to reallocate DWC staff to the audit unit and using senior auditors to ensure quality control and productivity.
- Revamp the audit selection process to get a more balanced view of how the system operates. For example, all insurers, self-insured employers and third-party administrators should be audited every five years on a simplified audit basis.
- Increase penalties for violations that materially affect an injured worker and reduce or eliminate penalties for minor infractions.

Some proposed changes are regulatory, while others may require legislative action.

For example, the California Labor Code would have to be amended to change the rule that half of all audits be random while the remainder be targeted, said Christine Baker, the commission's executive officer.

Ms. Baker says she is preparing to take the recommendations to advisory working groups made up of representatives of the workers comp community so all stakeholders can help develop solutions. "We've come up with our findings, our recommendations, but the devil's in the details," she said. "That's why we're going to take it to the community."

Other states also are re-examining their audit functions, and the commission contacted eight other states for comparison purposes in conducting its review, said Ms. Baker.

Ms. Baker was the first manager of the audit unit when it was created in 1991. Prior to becoming executive officer of the commission created by the 1993 workers comp reforms, Ms. Baker was deputy director of the Division of Workers Compensation. BI

Power

Continued from page 3
Thursday, the third time this year, a spokesman said. "But our utility called us in advance, and we picked a window that suited us," he said.

A Sun Oil Co. refinery in Toledo, Ohio, had to start reducing energy usage as early as Tuesday, frontline supervisor Walter Rogalinski said. The producer of chemicals "never went to lights out," he said. "But the utility said that if we don't get down to basically zero, they would pull the plug on us."

Recovering business losses will be difficult, however, insurance brokers say.

"If there was just not enough power to serve you, you won't be able to claim anything," said Ken Gladkowski, senior vp of Sedgwick of Illinois in Chicago. Only damages from an insured peril could be recovered, such as property damage, injuries or business interruption losses caused by lengthy outages. Most business interruption policies have a waiting-period deductible so that claims can be filed only after an interruption lasts a specified amount of time.

To be covered for damages to the utility that disrupt customer service for a long period, "you would need property damage and business interruption insurance and certain extensions," said John Michnya, vp at J&H Marsh & McLennan Inc. in Los Angeles. Endorsements that would come into effect in this case are off-premises power interruption coverage and a service-interruption endorsement of the boiler and machinery policy, Mr. Michnya said.

Mr. Michnya advises companies to check with their insurers if in doubt about their coverage.

Neither Mr. Michnya nor Mr. Gladkowski had received any claims by Wednesday.

While utilities said the circumstances of the shortages were unusual, some said they had expected them. "We knew that at some point this summer there would be a demand-offer problem," a spokeswoman for American Electric Power said.

While all utilities avoided blackouts, "I understand that some utilities in the region were close to them," a spokeswoman for Wisconsin Electric Power said. Most utilities emphasize that partial blackouts remain very unlikely in the future, especially with some power plant maintenance work scheduled to be finished by mid-July.

But, said the spokeswoman for American Electric Power: "We are not out of the woods. We expect a long hot summer."

Updates

Liberty Mutual acquisition

Continued from page 2
The acquisition, subject to approval by Summit's stockholders and state and federal regulators, calls for Boston-based Liberty Mutual to buy about 5.8 million shares of Summit's common stock for about $33 each, for a total of about $191.4 million.

The deal includes all of Summit's operating companies, which provide consulting, claims management, loss control and other services.

Summit provides workers comp products and services to employers and self-insured groups in Florida. Annualized premiums totaled approximately $202 million as of March 31.

Shipping code compliance high

LONDON—The International Maritime Organization has reported an 87% compliance rate among merchant ships for its International Safety Management Code, which went into effect July 1.

The code requires operators of passenger vessels and most bulk cargo ships of 500 gross tons or more to meet standards for the safe management and operation of their vessels. The code will extend to other ships on July 1, 2002. Shipowners or operators must have a corporate safety policy for protecting the environment and procedures for reporting and responding to emergencies. Shipowners also must obtain a Document of Compliance, which certifies that shore-based management systems comply with the code, and a Safety Management Certificate, which shows that shipboard management systems meet the standards.

About 12,700 vessels were affected by the deadline, and some observers feared compliance would be much lower. Late last year, figures from the International Assn. of Classification Societies, whose members are the leading assessors of ships and their operators for ISM certificates, showed only about 11% of affected ships had then complied.

IMO Secretary General William O'Neil said last week that the high compliance rate reflects combined efforts of all sectors of the shipping industry. Insurers and regulators, in particular, have made it hard for ships to operate without ISM certificates, as non-complying vessels will be detained or refused entry to most major ports and most insurers will deny coverage in the case of a claim on the vessel or its cargo (*BI*, May 18; Aug. 18, 1997).

The ISM Code was made mandatory as part of the United Nation's International Convention for the Safety of Life at Sea, which has been accepted by 137 countries, whose merchant ships represent 98% of world tonnage.

Paper apologizes to Chiquita

CINCINNATI—The Cincinnati Enquirer will pay more than $10 million and has published front-page apologies to Chiquita Brands International Inc. to settle claims stemming from a series of May stories that criticized Chiquita.

In the letter of apology, which has appeared in the paper three times, Enquirer Publisher Harry Whipple and Editor Lawrence Beaupre said they "renounce the series of articles" and have pulled them off the paper's World Wide Web site. The newspaper became convinced the articles "created a false and misleading impression of Chiquita's business practices," the apology said. The money will be paid "in exchange for settlement of claims against it by Chiquita," according to a story on the Enquirer's Web site. The nature of the claims was not identified, and no lawsuit had been filed.

The apology did not indicate what factual errors, if any, the stories contained, but it did say the apology was issued because the lead reporter of the series was involved in the theft of voice mail messages of Chiquita employees while researching the series. The reporter has been fired.

Prosecutors are investigating the theft charges.

Cincinnati-based Chiquita is owned by Carl Lindner, who is also chief executive officer of American Financial Corp., a Cincinnati insurance holding company.

Although $10 million settlements have occurred in the past, one without extended litigation is "very rare," said Chad Milton, senior vp for Kansas City, Mo.-based Media/Professional Insurance, a media liability underwriter not involved in the case.

A spokeswoman for Gannett Co. Inc., the Arlington, Va.-based owner of the paper, would not comment on any insurance coverage.

Briefly noted

French insurer **Groupama Assurances** has won the bidding for government-controlled Groupe des Assurances Nationales. Although Groupama, which will hold 87.1% of GAN, offered a marginally lower bid—17.25 billion French francs ($2.83 billion)—than its final rival, Swiss Life Insurance Co., it also required lower levels of guarantees from the French government to cover GAN's future liabilities. Combining the two insurers will create the second-largest non-life insurer in France, with aggregate revenues of 37.2 billion French francs ($6.37 billion). . . .New Hampshire Gov. Jeanne Shaheen has signed a bill **deregulating rates and forms** for large commercial policyholders. The new law will become effective Aug. 25. . . .**Cendant Corp.** has extended its $67 per share tender offer for 51% of American Bankers Insurance Group Inc. until Aug. 3. . . .The bankruptcy judge overseeing the Dow Corning Corp. reorganization has imposed a Tuesday deadline for both sides to either accept or reject the latest proposal to settle thousands of claims relating to **silicone breast implants**. U.S. Bankruptcy Judge Arthur Spector issued the deadline during a conference with the parties' attorneys Wednesday. Terms of the settlement were not revealed, but the company in February agreed to pay claimants $3 billion.

NAIC

Continued from page 2

perhaps through a public hearing, urged Steve D'Amato, director of the State Rating Bureau for the Massachusetts Insurance Division.

The Massachusetts division probably will hold an informational hearing of its own after soliciting comment from business groups, said its commissioner, Linda Ruthardt. "It may be that those ISO proposals are totally appropriate, but we don't know and don't think that the response of regulators should be knee jerk," she said.

Other states concerned about the issue include Alaska, Maine, Missouri and Texas, according to Mr. D'Amato.

However, the fact that about 44 state insurance departments already have approved the ISO filing generally indicates it is accepted among the majority of states.

Meanwhile, the NAIC's new Year 2000 Working Group is continuing its work to encourage states to survey their domestic insurers about their preparedness and that of their vendors.

In addition, the National Assn. of Independent Insurers proposed to the regulators' group a 10-month moratorium on new NAIC regulations becoming effective shortly before and after the Year 2000, to allow insurers to focus on the critical, one-time adjustment. The NAIC is considering the proposal.

In other action at the meeting, insurance commissioners:

• Gave interim approval during a meeting of the Commercial Lines-Property/Casualty Committee to a white paper on commercial lines deregulation. The proposed Regulatory Re-engineering of Commercial Lines Insurance will next be considered by the NAIC's Executive Committee before a full NAIC votes on it, perhaps as early as the fall meeting.

• Heard public comment on the Interstate Receivership Commission's proposed uniform law, which the three-state commission expects to approve by a Sept. 9 deadline.

The ISO proposals might be 'totally appropriate, but we don't know and don't think that the response of regulators should be knee jerk,' says Linda Ruthardt.

The proposed law is designed to increase information to policyholders, claimants and other interested parties. In addition, it will give them an opportunity to provide meaningful input into a receivership's business plan, said Peter Gallanis, Special Deputy Receiver of the Illinois Insurance Department.

Comments will be accepted through July and should be sent to Mr. Gallanis at 222 Merchandise Mart Plaza, Suite 1450, Chicago, Ill. 60654.

The commission consists of representatives of Illinois, Michigan and Nebraska.

• Awarded second-round accreditation status to the South Dakota Insurance Department.

The NAIC's accreditation program requires accredited state insurance departments to undergo an extensive review every five years to ensure they still meet baseline standards. There are now 49 accredited insurance departments, and 14 of those have received their second-round accreditations.

• Gave interim approval during a meeting of the Financial Condition Subcommittee to the Risk-based Capital for Health Organizations Model Act, which establishes the regulatory authority for applying a proposed risk-based capital formula to regulated managed care organizations.

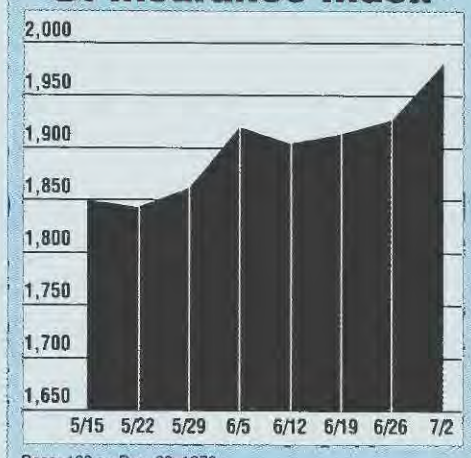
The full NAIC membership is expected to vote on the model at its fall quarterly meeting in September.

• Announced that 47 states and the District of Columbia have signed a memorandum of intent to establish an international commission charged with resolving the issue of insurance claims of Holocaust survivors.

In addition, members of the NAIC's International Holocaust Commission Task Force reported on a recent trip to Europe to meet with several European insurance regulators about the issue.

• Joined with the National Conference of State Legislatures in sending a letter to Congress opposing "HealthMarts," a cross between a purchasing co-operative and a multiple-employer welfare arrangement that federal lawmakers are considering as part of health reforms (*BI*, June 29). BI

BI Insurance Index



Base=100 on Dec. 29, 1978
Source: *Nordby International Inc.* (nordby.com) Boulder, Colo.

PCS catastrophe options

As of July 2

Call spread	Price bid/ask
National Annual 1998	
40/60	7.5/—
60/80	2.5/9.5
80/100	—/7.0
Southeastern September 1998	
40/60	2.6/3.3
Northeastern September 1998	
100/150	0.9/1.4
Florida September 1998	
40/60	1.0/2.4
California Annual 1998	
80/100	—/1.1
150C	1.0/1.8
Western Annual 1998	
40/60	—/2.2
80/100	—/1.7
150C	1.2/1.8
Eastern September 1998	
20/40	2.7/5.5
40/60	2.7/3.5

Total volume: 42 Total open interest: 18,557

For information on PCS cat options, call the Chicago Board of Trade at 312-435-3674.
Source: Chicago Board of Trade

Bias settlement dealt a setback

By SALLY ROBERTS

NEW YORK—A federal judge recently denied final approval of Salomon Smith Barney Inc.'s sexual discrimination and harassment settlement reached last November with a group of current and former women securities brokers.

Judge Constance Baker Motley of the U.S. District Court for the Southern District of New York said the $15 million diversity program hammered out in the settlement was too vague and inadequate. She did, however, approve of the proposed alternative dispute resolution program detailed in the settlement agreement (*BI*, Nov. 24, 1997).

Mary Stowell, a partner in the Chicago law firm of Stowell & Friedman Ltd., represents the group of 25 current and former Smith Barney employees who allege a pattern of unequal treatment of women at the firm.

Ms. Stowell said that attorneys from both sides have since come together and written an addendum addressing the judge's concerns and will submit the addendum to Judge Motley early this week.

"We're hoping to get on with this very, very soon," said Ms. Stowell, declining to elaborate further on the addendum.

"Despite this temporary setback, we are pleased that the Court endorsed all features of the settlement relating to the establishment of a dispute resolution process for handling all gender- based and other employment claims," Salomon Smith Barney said in a statement to its employees.

The securities broker said that it hopes the proposed amendment addressing the court's concerns over the diversity programs will lead to final approval of the settlement.

In the meantime, the Securities and Exchange Commission last week approved the year-old proposal from the National Assn. of Securities Dealers that will end mandatory arbitration of complaints of on-the-job discrimination and harassment for securities brokers.

In other employment practice settlement news, U.S. District Court Judge Joe Billy McDade in Peoria, Ill., last month approved the $34 million settlement between Mitsubishi Motor Manufacturing of America Inc. and the U.S. Equal Employment Opportunity Commission.

The settlement ends the 2-year-old class-action sexual harassment suit brought on behalf of more than 300 women who alleged widespread sexual harassment at Mitsubishi's Normal, Ill., plant. BI

British Issues

Companies	Price pence	P/E	Div. pence	Yield %	52-week high-low
Brokers					
Gdn Royal Exch	372	5.3	12.1	3.3	495-263
Legal & Gen	663	16.7	12.7	2.4	785-400
Royal & Sun	636	16.7	22.8	3.6	825-450
Brokers					
Lmbrt Fenchurch	100	NA	5.7	7.1	138-100
Lloyd Thmpson	179	11.9	10.0	7.0	196-151
Sedgwick Grp	141	12.5	7.0	5.0	171-115
Willis Corroon	157	13.0	6.8	5.5	174-116

Note: Prices are July 2 closings; other numbers from July 1.

Source: *Nordby International Inc.*(nordby.com) Boulder, Colo.

BI Industry Stock Report JUNE 29, 1998, THROUGH JULY 2, 1998

		Price	Weekly % change	Year to date % change	52-week High	52-week Low	Vol.(000)
BROKERS							
Aon Corp.	NYS	71.31	0.26	21.64	72.25	50.00	1529
E.W. Blanch Holdings Inc.	NYS	37.13	1.02	7.80	38.75	26.75	160
Gallagher Arthur J. & Co.	NYS	44.38	-2.74	28.86	46.56	33.56	87
Hilb, Rogal & Hamilton	NYS	16.50	6.02	-14.56	19.63	15.38	139
Kaye Group Inc.	NDQ	6.75	1.89	1.89	9.00	5.13	8
Marsh & McLennan	NYS	60.19	0.38	21.08	63.31	44.00	1847
Poe & Brown	NYS	37.88	2.36	27.31	39.38	23.88	23
Sedgwick Group PLC	NYS	12.13	11.49	-1.52	14.44	9.38	26
Willis Corroon Corp.	NYS	13.19	5.50	7.11	15.19	9.75	80
BROKERS	AVERAGE		3.24	9.75			
INSURERS/REINSURERS							
ACE Ltd.	NYS	39.50	2.60	22.80	42.50	24.38	1197
Acceptance Insurance Cos.	NYS	24.19	-1.53	0.00	28.63	21.13	100
AEGON N.V.	NYS	87.94	10.61	96.23	88.75	34.00	168
Aetna Life & Casualty	NYS	77.44	4.21	9.74	118.13	66.31	2127
AFLAC Inc.	NYS	33.00	6.67	29.10	34.50	22.13	1516
Allied Group Inc.	NYS	46.94	0.81	63.97	46.94	25.00	237
Allstate Corp.	NYS	47.81	7.44	5.66	50.13	35.50	4393
AMBAC Indemnity Corp.	NYS	60.25	2.99	30.98	61.00	38.25	623
American Bankers Ins.	NDQ	60.88	1.99	32.52	66.06	31.63	422
American Financial Group	NYS	43.63	1.01	8.22	49.25	34.56	261
American General	NYS	72.63	4.59	34.34	72.63	46.56	1688
American Heritage Life Ins.	NYS	23.63	8.00	31.25	25.00	16.50	41
American Indemnity/Fin'l	NDQ	11.56	-0.54	-16.67	15.50	9.50	8
American International	NYS	146.94	3.71	35.11	146.94	93.75	3982
Argonaut Group	NDQ	32.63	2.76	-3.69	38.13	29.50	67
AXA-UAP Group	NYS	57.63	3.25	47.76	62.63	30.75	149
Baldwin & Lyons Inc.	NDQ	23.88	2.69	-1.04	28.75	18.50	9
Berkley W.R. Corp.	NDQ	40.31	-0.46	-8.12	49.88	35.69	710
Berkshire Hathaway Inc.	NYS	77500.00	-0.65	68.48	84000.00	30000.00	1
Capital RE Corporation	NYS	37.50	6.19	20.85	38.69	24.94	155
Capitol Transamerica Corp.	NAS	20.38	-1.81	-4.40	28.13	19.00	23
Centris Group Inc.	NYS	12.44	-1.49	11.48	14.81	9.69	23
Chartwell Re	NYS	29.13	-1.27	-13.70	36.25	28.25	103
Chubb Corp.	NYS	82.44	2.33	9.01	83.44	63.50	2294
CIGNA Corp.	NYS	71.06	1.34	23.68	71.75	45.63	1888
CNA Financial Corp.	NYS	46.38	-0.13	8.90	53.25	35.25	215
CNA Surety	NYS	14.75	0.85	-4.45	16.75	12.88	249
EMC Insurance Group Inc.	NDQ	15.00	3.45	13.21	15.88	12.25	26
ESG Re Limited	NDQ	22.25	1.14	-5.32	28.88	19.88	62
Enhance Financial Services	NYS	35.38	4.91	18.91	37.56	22.00	400
Everest Reinsurance	NYS	39.69	2.09	-3.79	45.25	33.00	825
Executive Risk Inc.	NYS	71.88	1.23	2.95	75.75	49.31	174
EXEL Ltd.	NYS	77.81	1.30	22.78	81.13	52.75	682
Fremont General Corp.	NYS	55.50	5.09	1.37	62.13	36.75	383
Frontier Insurance Group	NYS	23.06	-3.91	0.82	35.69	18.19	657
Gainsco Inc.	NYS	6.38	0.99	-25.00	10.19	6.00	279
General RE Corp.	NYS	256.00	-0.40	20.75	275.00	182.13	2081
Gryphon Holdings	NDQ	16.00	-2.29	-4.48	19.38	14.75	12
Harleysville Group	NDQ	21.88	4.17	-8.85	28.50	18.38	334
Hartford Steam Boiler	NYS	54.06	5.49	46.94	54.06	33.25	352
HCC Insurance Holdings	NYS	22.50	5.57	5.88	32.69	15.63	567
ING Groep N.V.	NYS	66.50	2.90	57.16	71.06	38.88	150
IPC Holdings Ltd.	NDQ	30.63	1.03	-4.85	33.25	26.75	196
Hartford Financial Services	NYS	114.56	5.77	22.44	116.88	78.56	1332
4LaSalle Re Holdings Ltd.	NYS	38.38	3.89	8.48	42.94	29.00	67
Life Re Corp.	NYS	83.94	7.78	28.76	84.38	46.63	495
Lincoln National	NYS	93.50	4.84	19.68	94.13	63.81	839
MAIC Holdings Inc.	NYS	28.50	3.40	6.40	30.38	18.88	240
Markel Corp.	NYS	176.75	-2.08	13.21	182.00	127.00	40
MBIA Insurance Group	NYS	74.88	1.61	12.07	80.94	55.75	948
Meadowbrook Insur. Group	NYS	27.50	0.92	5.52	35.00	21.88	22
Mid Ocean Ltd.	NYS	78.53	1.58	44.76	81.63	52.00	308
MMI Cos. Inc.	NYS	23.00	8.24	-8.46	27.88	20.75	99
Mutual Risk Mgmt. Ltd.	NYS	38.25	7.18	27.77	38.44	22.63	383
NAC Re Corp.	NYS	54.75	4.04	12.16	55.38	43.50	336
Navigators Group	NDQ	18.94	4.48	0.83	22.50	17.00	40
Nobel Insurance Ltd.	NDQ	13.44	-0.92	2.38	15.13	12.13	32
NYMagic Inc.	NYS	27.19	-1.14	-1.36	34.25	20.63	11
Ohio Casualty Corp.	NDQ	46.25	3.06	3.64	51.75	41.56	200
Old Republic Int'l	NYS	30.00	7.87	21.01	32.25	20.06	1112
Orion Capital Corp.	NYS	55.50	0.23	19.52	57.75	36.75	520
Partner Re Ltd.	NYS	51.56	2.48	11.19	52.50	36.88	332
Penn-America Group Inc.	NDQ	13.13	-2.78	-35.98	23.00	12.25	95
Pennsylvania Manufacturer's Co	NDQ	22.50	7.78	34.33	23.75	16.25	199
Philadelphia Cons. Holding	NDQ	20.50	2.50	15.49	24.38	15.50	156
PXRE Corp.	NYS	30.00	-2.64	-9.60	35.25	29.00	52
Reliance Group Holdings	NYS	18.00	0.00	27.43	19.13	11.63	888
Reliastar Financial Corp.	NYS	48.75	4.14	18.36	49.94	33.63	1012
RenaissanceRe Holdings Ltd.	NYS	46.38	3.34	5.10	50.75	37.88	203
Risk Capital Holdings	NDQ	24.13	-3.50	8.43	25.50	19.75	71
RLI Corp.	NYS	40.81	1.71	2.42	45.44	27.63	46
St. Paul Companies	NYS	42.56	2.56	3.73	47.19	36.25	2364
SCOR	NYS	68.25	7.27	42.93	68.25	39.25	11
SAFECO Corp.	NDQ	48.06	6.36	-1.41	56.00	42.50	2386
SCPIE Holdings Inc.	NYS	34.06	0.55	17.71	38.38	24.31	NA
Selbels Bruce Group	NDQ	7.00	-4.27	-6.67	8.94	6.63	32
Selective Ins. Group	NDQ	23.13	2.49	-14.35	29.25	22.38	372
Terra Nova Insurance Co. Ltd.	NYS	30.75	-1.01	17.14	33.13	20.75	129
TIG Holdings	NYS	23.50	0.00	-29.19	36.56	22.63	1619
Tokio Marine & Fire	NDQ	51.63	4.42	-10.61	66.00	41.25	65
Torchmark Corp.	NYS	46.19	3.50	9.48	49.81	34.81	1274
Transatlantic Holdings	NYS	78.13	2.80	9.27	78.50	66.38	94
Travelers Property Casualty	NYS	43.69	6.07	-0.71	46.06	34.88	1780
Travelers Corp.	NYS	63.63	3.46	18.10	73.50	42.00	12660
Trenwick Group Inc.	NDQ	39.50	-0.94	4.98	41.75	33.38	290
Unico American Corp	NDQ	15.25	0.83	24.49	18.13	10.75	33
United Fire & Casualty	NDQ	40.88	3.81	-7.63	47.00	37.00	11
Unitrin	NDQ	68.25	0.00	5.61	74.13	56.25	69
UNUM Corp.	NYS	56.25	-0.44	3.45	59.63	40.69	1981
Vesta Insurance Co.	NYS	19.81	-25.59	-66.63	64.75	18.44	3377
Zenith National Ins.	NYS	28.38	0.22	10.19	30.50	24.50	25
INSURERS/REINSURERS	AVERAGE		2.06	11.60			
HEALTH MAINTENANCE ORGANIZATIONS							
Foundation Health Systems Inc.	NYS	26.38	-0.71	18.54	33.94	22.06	1034
Humana Inc.	NYS	31.63	0.40	52.41	32.13	18.44	4048
Oxford Health Plans	NDQ	14.94	-2.85	-4.02	69.00	13.75	3651
Pacificare Health Sys.	NDQ	86.00	1.78	71.14	86.19	46.75	117
Safeguard Health Enter.	NDQ	6.25	4.17	-53.70	14.88	6.00	15
Sierra Health Services	NYS	25.50	0.74	13.75	27.75	20.44	92
United Healthcare Corp.	NYS	65.06	-0.29	30.94	73.94	42.44	4186
Wellpoint Health Networks	NYS	71.56	1.60	69.38	74.00	38.63	1277
HMOs	AVERAGE		0.60	24.81			
ALL COMPANIES	AVERAGE		1.97	15.39			

Top advancing issues: Sedgwick Group P.L.C., AEGON N.V., MMI Cos. Inc. Leading decliners: Vesta Insurance Co., Selbels Bruce Group, Frontier Insurance Group. Most active issue: Travelers Corp. The *BI* Index rose 2.9%; the Dow Jones 30 Industrials increased 0.9%; the S&P 500 rose 1.2% and the NYSE Composite increased 1.4%. Average P/E: Brokers, 18.7; Insurers/reinsurers, 19.7; HMOs, 24.4.

Source: *Nordby International Inc.* (nordby.com), Boulder, Colo.

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