

Business Insurance

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

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Anthem confirms talks to sell Acordia to non-insurance buyer

INDIANAPOLIS—Anthem Insurance Cos. Inc. is closer to a deal with a company outside the insurance industry for the sale of Acordia Inc.'s property/casualty business.

Indianapolis-based Anthem, a mutual insurance company, announced last week that it is in negotiations with a "financial buyer" but the two have "significant differences" regarding terms of the transaction, including the purchase price. This is the first time Anthem has confirmed the third party is not an insurance industry organization.

See Updates on next page

Tribe gambles on comp system

By ROBERTO CENICEROS

MASHANTUCKET, Conn.—The owner of the nation's largest resort casino hopes to control its workers compensation exposure by exercising an option beyond the reach of most companies headed down the self-insurance path.

The Mashantucket Pequot Tribal Nation, which owns the casino, has exercised its congressionally granted rights as a

Risk management is critical to the success of tribe's casino . . . page 6

sovereign nation and created its own workers comp system, separate from Connecticut's.

While this opportunity isn't available to most of Corporate America, the idea of creating an autonomous workers compensation system could spread among other Indian tribes adopting risk management practices for their gaming operations. Mashantucket Pequot legal strategies are closely watched by others who admire the tribe's success.

The MPTN owns Foxwoods Resort Casino in southeastern Connecticut. The tribe is now Connecticut's third-largest employer and the state's largest source of revenue after the federal government. The 5-year-old casino attracts 50,000 visitors daily and employs about 11,000 workers. Another

1,000 employees work for the tribal government, and 2,000 more workers will be hired soon to help with the casino growth that is multiplying yearly, said Richard Paton, chief risk management officer for the MPTN.

Growth has come so rapidly that management is racing to keep pace, Mr. Paton said.

Efforts to heighten risk management include self-insuring workers comp losses and contracting with a third-party administrator that will staff an onsite claims-handling facility.

Under the tribe's workers comp system, cases will be adjudicated at a reservation facility practically next door to the casino. Appeals will go to a tribal court that also hears civil cases arising from casino patrons.

"We recognized that in order (to benefit from being) self-insured to the fullest extent, we needed to take on our own workers compensation system," said Patrice Kunesh, a staff attorney for the tribe who drafted the code creating the autonomous workers comp system. "And in looking at what kind of system we wanted to put in place, we recognized that there were a lot of areas where we could improve on the state system."

Employees complained the state workers comp system often took weeks or months to resolve their cases, Ms. Kunesh

See Casino on page 4

NIOSH links work to certain disorders

By MARK A. HOFMANN

WASHINGTON—A new government study contends there is a link between workplace conditions and certain repetitive stress injuries.

The Occupational Safety and Health Administration contends that the study supports its call for a national ergonomics standard to reduce such injuries, though critics of such a standard dispute that conclusion.

The Cincinnati-based National Institute for Occupational Safety and Health last week released the

study, which consists of a compendium of previously published scientific studies rather than new

Ergonomics conference reviews key issues and strategies . . . page 59

research.

After noting that the relationship between musculoskeletal disorders, or MSDs, "and work-related factors remains the subject of considerable debate," Dr. Linda Rostenstock, NIOSH's director, wrote, "on the basis of our review

of the literature, NIOSH concludes that a large body of credible epidemiological research exists that shows a consistent relationship between MSDs and certain physical factors, especially at higher exposure levels."

After reviewing the various studies, some of which date back to the 1940s, NIOSH concluded that repetitive stress injuries tend to be caused by a combination of job-related factors, including vibrations or posture, rather than a single factor. The report also notes that "all of these disorders

See NIOSH on page 61

New health plan option Bill would allow small firms to band together in new plans

By JERRY GEISEL

WASHINGTON—Legislation now awaiting action by a congressional conference committee would give small employers banding together through established trade associations the same health care buying advantages that larger companies already enjoy.

Provisions tucked into the House-passed tax bill would allow trade associations to provide members with health care plans exempt from state benefit mandates and many other state rules.

Instead of being regulated by

the states, these new "association health plans," or AHPs, would have to meet new federal solvency and other rules and would be regulated by the Department of Labor.

AHPs could be self-insured or fully insured. However, to qualify for this special exemption from state regulation, at least one of the association health care plans offered to members would have to be fully insured.

Trade associations now are limited in the health care programs they can offer their members. If the association self-insures a pro-

gram, it generally is considered to be a multiple employer welfare arrangement, which is subject to state regulation. States generally consider MEWAs to be unauthorized insurers and have tried to shut them down.

Trade associations can offer members fully insured plans, but those plans must meet state requirements.

Employee benefit plans run by individual employers, though, can escape state regulation if they are self-insured. That is because a provision in the Employee Retirement Income Security Act of 1974

See MEWAs on page 62

Welfare reform law may aid fight against comp fraud

By MICHAEL PRINCE

A little-noticed paragraph in the federal welfare reform law passed last year could save million of dollars in fraudulent workers compensation claims, suggests an insurance consultant.

The passage in question relates to a part of the federal welfare reform law designed to track down "deadbeat dads," those people who fail to pay their child support obligations. To facilitate finding

these people and tapping their assets, the law requires each state to compile a list of all new employees hired. The list is used to compare newly hired employees with support orders so that money can be deducted from their wages.

But the law also states that "state agencies operating employment security and workers compensation programs shall have access" to the directory of newly hired employees.

By cross-checking the list of

people receiving workers compensation benefits with the list of new hires, those who are working while claiming to be unable to do so can be discovered.

Finding these people and terminating their workers comp benefits could save \$59 million a year in New York alone, according to Frederick Buse, managing director of Schwartz Heslin Group Inc., an insurance consulting firm in Troy, N.Y., and former unem-

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PHOTO COURTESY OF FOXWOODS RESORT CASINO / GARY J. THIBEAULT

The Mashantucket Pequot Tribal Nation, owner of a casino in Connecticut, has launched its own workers compensation system.

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NEWSPAPER

Updates

Bid for Acordia progressing

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The prospective buyer's original indication of interest was \$335 million, subject to various assumptions and contingencies, but Anthem said discussions to date indicate the price will be less than that.

Anthem also announced that its tender offer for the remaining outstanding shares of Acordia's common stock has been extended until midnight July 9 (BI, June 9). Anthem currently owns 66.8% of the broker. When the tender offer is complete, Acordia will discontinue its business relationship with Anthem and become a separate, 100% Anthem-owned property/casualty broker, Acordia executives confirmed.

Of Acordia's \$661 million in 1996 revenues, \$326 million was derived from providing sales, marketing and administrative services for Anthem's health care products. The remaining \$335 million is attributable to Acordia's property/casualty business.

HMO enrollees can sue: Court

OAKLAND, Calif.—Health maintenance organization enrollees are not bound to arbitrate claims against HMOs and can instead take them to court if the HMO doesn't arbitrate as quickly as it promises, the California Supreme Court ruled last week.

The court ruled there is evidence that supports a lower court finding that a unit of Oakland-based Kaiser Permanente fraudulently delayed scheduling arbitration in a case involving a California man with lung cancer who died before his case could be heard.

The family of Wilfredo Engalla charged that Kaiser delayed selecting arbitrators in the 1991 medical malpractice claim for 144 days instead of 60 days as promised in its contracts.

The high court returned the case to trial court to determine whether the HMO actually committed fraud in the delay.

In a statement, Kaiser Permanente said it believes facts at the trial will show the HMO did nothing to intentionally delay arbitration.

Storms hit Detroit area

DETROIT—Fierce thunderstorms and tornadoes tore through the Detroit area last Wednesday night, heavily damaging many businesses and homes and leaving more than 220,000 residents and businesses without electric power.

"It's crazy; there's confusion," a spokesman for the Detroit Police Department said the morning after the storm. "The streets are blocked, trees are uprooted, and homes are crushed."

The storms, which hit hardest on the west side of Detroit and the cities of Hamtramck and Highland Park north of Detroit, killed at least five people and injured at least 100, with hundreds left homeless.

Officials and insurance executives could not give immediate estimates of property damage. All of Wayne County, including Detroit, was declared a disaster area.

Late last week, efforts were under way to restore power.

"Thank God it was not the downtown area that was affected by it," said Angela Moss, risk manager for the city of Detroit. Although stores downtown were spared, she said, in residential neighborhoods "houses were ripped apart; debris and poles and bricks are everywhere."

Alan Must, president of Dairy Fresh Foods in Highland Park, said he estimated the storm caused \$100,000 in damage to his milk and deli products plant when it partially pulled off the roof and allowed water to stream in. "We're lucky," he said. "We could have lost the whole building last night."

Meanwhile, U.S. catastrophes caused an estimated \$980 million in insured damage during the three months that began April 1, according to the Property Claim Services division of the American Insurance Services Group Inc. First-half catastrophe losses of \$1.84 billion were only slightly higher than the average of \$1.59 billion since 1989, PCS said.

Med mal surcharge suspended

ALBANY, N.Y.—Self-funded employers and health insurers in New York will save more than \$100 million over the next 12 months under a bill approved by state lawmakers that suspends assessments for the New York Excess Medical Malpractice program.

While self-funded employers will enjoy savings, it is not clear whether insurers will pass the savings to their employer policyholders.

The bill, passed last week by the New York House and Senate and signed by Gov. George E. Pataki, will suspend assessments for the program for one year and orders a study to assess whether the fund could be perpetually self-funding.

The program provides free excess medical malpractice coverage to 20,000 doctors: \$1 million excess of \$1 million per incident and \$3 million excess of \$3 million in the aggregate.

The program was funded by a surcharge on hospital discharge fees incurred by payers, such as insurers and self-insurers. The program has collected more than \$2 billion since it was established in 1985, and more than \$700 million was "borrowed" by the state to help balance the New York budget in recent years. The program has been criticized by employers as a "hidden tax" on businesses. But doctors insist the coverage is necessary but unaffordable for most doctors (BI, May 5).

It is not clear whether health plans will pass savings to employers.

The reduced cost of funding the program will likely be overshadowed by other health care cost increases, said Gerard Conway, director of governmental affairs at the Medical Society for the State of New York.

Lloyd's Council picks Taylor

LONDON—Max Taylor, group executive director of Willis Corroon Group P.L.C., is the Council of Lloyd's choice to become the market's next chairman.

Last week, the 18-member Council, the ruling body of Lloyd's of London, voted unanimously for Mr. Taylor, 49, to succeed Sir David Rowland. See Updates on page 62

Texas may order insurers to share refunds with buyers

By MICHAEL BRADFORD

AUSTIN, Texas—Some Texas employers will receive sizable checks from insurers as their share of refunds from the state's workers compensation residual market if a proposed rule is adopted this week.

In its current form, the rule would require workers compensation insurers to share residual market refunds with policyholders that

bought retrospectively rated policies between May 1, 1991, and Dec. 31, 1994.

Insurers, however, are fighting refunds to policyholders, calling the measure unfair.

Texas Insurance Commissioner Elton Bomer is expected to decide Tuesday whether to adopt, reject or modify the rule proposed by the Workers' Compensation Division of the Texas Department of Insurance.

The Workers' Compensation Division was unable to say how much the rebates to policyholders might total, but a lawsuit filed to recover the charges from insurers said as much as \$140 million could be owed.

"It's really speculation on anyone's part," said Scott M. Clearman, an attorney with McClanahan & Clearman L.L.P. in Houston. Mr. Clearman filed suit in See Texas on page 60

Fire devastates New York landmark Grand Central's Oyster Bar suffers major damages

By DOUGLAS McLEOD

NEW YORK—Operators of a landmark restaurant in New York's Grand Central Terminal are fully insured for a fire that gutted most of the restaurant last week.

The Oyster Bar & Restaurant, a fabled New York spot that has occupied sweeping subterranean rooms at Grand Central for more than 80 years, was devastated by an intense after-hours blaze that destroyed its kitchen, incinerated three dining and bar rooms, and blackened its distinctive vaulted tile ceilings.

The fire broke out about 2:30 a.m. June 29 and quickly went to four alarms, with 192 firefighters

and 39 New York Fire Department vehicles responding, a fire department spokesman said.

Nine firefighters, a police officer and four civilians suffered minor injuries fighting the smoky blaze, which occurred after the last Metro North Commuter Railroad train had left and the station was largely empty.

Fire officials do not consider the blaze suspicious. Mark Abrahamson, the Oyster Bar's general manager, said the fire apparently started in a refrigerator motor.

Mr. Abrahamson said he could not estimate the damages but that the restaurant—owned by New See Restaurant on page 62

Twin Cities employers faulted in lack of preventive care

By ROBERT KAZEL

MINNEAPOLIS—A study indicating that many Twin Cities clinics are failing to provide patients with adequate preventive health services attributes the result in part to a cost squeeze exerted by the area's powerful business health care purchasing coalition.

But a coalition executive says the study's findings are being misinterpreted. In addition, he said, his consortium in the future may

offer cash rewards to health plans that score high on preventive services.

And one of the study's authors says bashing the coalition was not the intent of the article.

The study, which appeared last month in the Rochester, Minn.-based Mayo Medical Center's Mayo Clinical Proceedings, polled patients of 44 primary care clinics in the Minneapolis and St. Paul, Minn., area. It concluded that physicians discuss with patients

measures such as influenza shots and cholesterol tests less than half the time, and sometimes less than one-third of the time, even though the doctors told researchers such services were important.

While some doctors reported that they simply are "unable to find time" to supply much preventive service, the article also speculated that the collective managed care purchasing activities of about two dozen employers See Preventive on page 61

Employment practices exposure boosts role Managing risks of human resources

By JOANNE WOJCIK

SAN DIEGO—Today's human resource executives must be a lot more risk management-oriented to help shield their companies from potentially devastating liability exposures, experts say.

Although the two disciplines typically are separated in companies, a growing exposure from employment-related risks likely will mean they will work more

closely together in the future.

Integrating risk management principles into human resource activities is much easier in companies where the two disciplines already are merged into a single department, according to Vickie L. Cortese, vp-personnel/risk man-

agement for Federal Compress & Warehouse Co. Inc. in Memphis, Tenn.

But in many corporate cultures, the two disciplines are regarded as quite disparate, pointed out Gary Ritzky, risk and human resources director for Turner Bros. Trucking/Turner Bros. Crane & Rigging of Oklahoma City. Often risk management is considered as serving a defined financial func- See Integrate on page 22



Inside

- Congress should pass a law allowing judges to approve classes for settlements that might not be approved for trials, this week's editorial says. **PAGE 8**
- A negligence judgment against an Australian company could spur more class-action suits against companies there, some warn. **PAGE 55**
- Contracting with HMOs can help save significantly on workers compensation costs, a study says. **PAGE 61**

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Negotiate terms now, brokers recommend

Insurers more flexible on coverage conditions

By **SALLY ROBERTS**
and **ROBERTO CENICEROS**

Just when brokers thought commercial property/casualty rates couldn't get any lower... along come midyear renewals.

Commercial policies are being renewed with rate decreases anywhere from 10% to 30% on all lines of business, brokers report. Even coastal wind-storm and earthquake coverages, whose rates have been firm in recent years, are being written more aggressively.

With the market so competitive, now is as good a time as ever for risk managers to ask for specific improvements in terms and conditions and lower rates on their insurance programs, brokers say.

It is a new day, noted Richard Hackenburg, chief executive officer of Willis Corroon Corp.'s Risk Management Services, based in Nashville, Tenn., and New York. "To try and use old epithets about describing soft vs. hard markets is a thing of the past. The old paradigms are gone."

"Right now insurers are being extraordinarily flexible to retain the business," Mr. Hackenburg said. "The competitive pressures out there are very significant."

Richard E. Simmons III, CEO of Hilb, Rogal & Hamilton Co. of Alabama in Birmingham, said he didn't think the market could get any softer, "but it seems insurers are trying desperately to hit their budgets and will do anything to bring premium in. The cycle seems to get even more vicious."

"It's more of the same bloody battle," agreed J. Patrick Gallagher, president

and CEO of Arthur J. Gallagher & Co. in Itasca, Ill. "We have example after example of ludicrous pricing."

Mr. Gallagher said he used to think the soft market had become the standard market, but not anymore. "Some day, somebody has to pay these claims," he said.

Specifically, "we've had a couple of significant large accounts with very predictable workers comp loss pictures, and the market occasionally has come in significantly under that to pick up the account," he said.

J. Hyatt Brown, president and CEO of Poe & Brown Inc. in Daytona Beach,

BROKERS REPORT

Fla., said: "Probably the only area we see any upward movement of pricing, truly, in the last year is in coastal wind-storm coverage in the Southeast." However, with no major catastrophes in the

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Soft market getting old, even for risk managers

Insurer consolidations haven't raised P/C rates, but some worry about future coverage availability

By **MICHAEL BRADFORD**
and **MEG FLETCHER**

How do you know when the insurance market has been soft too long?

When risk managers begin to feel sorry for their underwriters.

"The market looks soft, soft," said June H. Dickinson, vp and risk manager at SunTrust Banks Inc. in Atlanta. "It's good for us, we just hope it's not too bad for the industry."

No one is expecting risk managers in a burst of altruism to begin paying higher premiums than required. And

RISK MANAGERS REPORT

"The whole market for primary general liability and property is down," said Gail J. Wilson, vp-insurance for KFC National Purchasing Cooperative, the Louisville, Ky.-based company that purchases goods for Kentucky Fried Chicken franchises. "It's kind of surprising, because it seems there are fewer insurers out there but competition continues to be very great. Everybody knows you can get

it cheaper out there from someone, so it pays to look."

Although rates aren't expected to rise any time soon, Ms. Wilson and other buyers have some worries about the long-term effect that insurer consolidations could bring.

"Insurer consolidations should be a concern for all of us because it has to decrease availability," she said.

There have been no ill effects for PepsiCo Restaurant Services Group from insurer consolidation, but there may yet be, said Christopher Mandel, the Louisville, Ky.-based director, risk management at the restaurant company. "I see it coming, in less choice."

In the meantime, buyers continue to write smaller checks on renewal dates or accept higher limits or better terms at expiring rates.

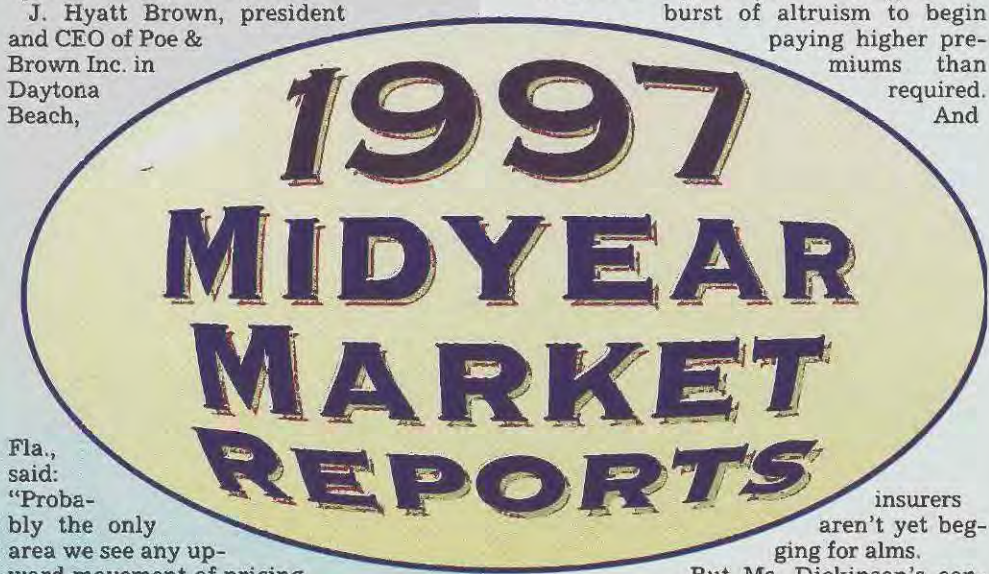
Oglethorpe Power Corp. in Tucker, Ga., renewed property coverage with Arkwright Insurance Co. for facilities valued at \$960 million—\$20 million higher than in 1996—at rates unchanged from last year, according to Dolores Anderson, risk manager with Intellisource Services Solutions in Atlanta.

The placement covers property owned by

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insurers aren't yet begging for alms.

But Ms. Dickinson's concern highlights the longevity of a cheap marketplace that is keeping coverage costs low and insurers scrambling for business.



Health care is poised for an increase in rates

Pressure to keep costs down expected to catch up with HMOs during midyear renewal season

By **RODD ZOLKOS,**
ROBERT KAZEL
and **HOLLY SIMPSON**

The signs at midyear renewal season are confirming what has been anticipated: Health care coverage costs are headed north.

The mid-single-digit increases many see for this year may be just the beginning, as some see premium increases approaching double digits in 1998.

The reasons industry experts cite for the market's turn are numerous and varied, including an inevitable rebound from years of artificially low pricing by health maintenance organizations eager to gain market share, an "HMO backlash" by consumers and legislators, savvy contracting by physicians and hospitals, and a general return of health care cost inflation that reflects a lack of any real structural change in the nation's health care system.

And, should an upturn in health benefit pricing develop into a true multiyear trend, it could force considerable—even fundamental—changes in the way employers provide health benefits, some experts believe.

"We've had a holiday from premium increases since 1994," said John Erb, a principal with William M. Mercer Inc. in Miami. "Anybody who hasn't expected that to come home to roost has been dreaming."

Said Joseph T. Lynaugh, president and

chief executive officer of NYLCare Health Plans Inc. in New York, "I expect many HMOs as well as insurers will start reporting that the heat is on."

"I think health care cost inflation is definitely coming back," Mr. Lynaugh said.

"On the HMO side, we have seen this already in the pharmacy area for at least 18 months now. On the indemnity side, we see real pressure in physicians' fees, and right behind that is the hospital side."

Mr. Lynaugh said he expects 1997 to show a 5% to 6% level of health care inflation, and that's just a start. "I think for '98 it will be 10% or 12%."

According to Mr. Erb, premium increases for coverage renewed at midyear should average 4% nationwide, though 1998 promises to be more difficult. "We're probably looking at high single digits for '98, depending on the market," he said.

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HEALTH CARE REPORT

'Extremely thin' pricing has insurers starving

Bargains available even for poor loss experience

By **MARK A. HOFMANN,**
HOLLY SIMPSON
and **MICHAEL PRINCE**

Insurers have seen the market confronting them this midyear renewal season before, but that doesn't mean they like it any better than they did a year—or two years, or three years—ago.

Commercial property and liability rates continue to decline, and even property catastrophe rates are down despite the fact that hurricane season has begun, insurers note.

Workers compensation remains particularly competitive, especially in California, they add.

While that's good news for risk managers, insurers are under the gun to find new ways to compete and differentiate themselves from their competitors.

Some insurers see a silver lining in the cloud known as the Year 2000 problem. Others are looking for growth in new

market staples, such as employment liability insurance, as part of their salvation.

But all agree, however, that the current market isn't one they like to see.

"Pricing continues to be extremely thin for all lines of liability. I think it's safe to say that pricing today is equal to or thinner than it was in 1983 and 1984," said David McDonald, chief

underwriting officer for the Royal Insurance Group in Charlotte, N.C.

"As long as the stock market continues to perform, surplus continues to be generated and we're not going to see a market adjustment. Having said that, I do believe there will be an adjustment, I just don't know when or why," said Royal's Mr. McDonald.

"It's ugly out there," summed up Dennis Busti, president of Reliance National Insurance Co. in New York.

"If anything, it's worse" than a year ago, he said.

Mr. Busti said the property/casualty market is so competitive that poor loss experience is no longer even a rationale for some underwriters to hold the line on rates.

He said he heard of one company with a large umbrella policy that got a one-third reduction in rates by a competitor, even though the company had poor loss experience.

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Casino

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said. Backlogs led to frequent rescheduling and kept workers away from the job.

Under the tribe's new system, claims first will go to the onsite processing facility operated by ESIS Inc., a unit of CIGNA Property & Casualty. ESIS now will handle all of the MPTN's workers comp and auto liability claims. Having the third-party administrator on site will expedite the process.

Risk management and the use of improved claims handling has mushroomed among gaming companies, because their success depends on their service and therefore on the treatment of employees and customers. The concern with providing good service applies to all areas, including the proper treatment of incidents and claims, said Sandy Sampson, an expert in tribal gaming and vp for Aon Risk Services Gaming Group in Atlantic City, N.J. Aon places property/casualty coverage for the MPTN.

A gaming company's concern about the proper use of its insurance and claims-handling can be a more important cost-of-risk issue than the amount spent on insurance, she added.

"The casinos pay very close attention to taking care of their patrons and certainly the proper response to

handling an incident in a facility has to do with the reputation of the facility itself as being patron responsive," Ms. Sampson said.

In order to win employees' acceptance of its new workers comp system, the MPTN is offering a slight increase in benefits over the amount employees received under Connecticut's system. For example, the maximum weekly benefit will rise by \$14 to \$670.

Otherwise, the MPTN used Connecticut's workers comp system as a model for its own legal code that as of July 1 establishes what its employees' rights and its own liabilities will be, Mr. Paton said.

Under the code, if employees are not satisfied with the initial handling of claims, they can submit the claims for informal hearings. If they still are not satisfied, they may consult the tribe's workers comp commissioner, who will soon be hired, Ms. Kunesh said.

Appeals of the commissioner's decision can be submitted to the tribal court, which also has an appellate branch. The tribe's sovereign immunity status allows it to hear cases in its own court rather than in state and federal courts. Both the commissioner and the court are located on the reservation near the casino.

The tribal court was created about five years ago when the casino evolved from a bingo hall. The tribe realized it would need a forum for legal disputes—such as those arising

from slip-and-fall cases—once it began inviting thousands of patrons onto its property, Ms. Kunesh said. The court also handles other types of hearings such as minor criminal charges.

In civil cases there is a damages cap for pain-and-suffering equal to half of damages for tangible economic loss. There are no punitive

Except for workers comp, the tribe now purchases coverage for all of its insurable exposures.

damages or damages for loss of consortium. Strict liability is not recognized. Claims against the tribe or its enterprises must be filed within 180 days after the injury occurs.

The court does not have jury trials for civil cases. A judge rules on those matters.

Supporters say the court system is at the forefront of tort reform. But some Connecticut attorneys have criticized the tribe's court, saying it is merely a calculated move to limit liability.

The establishment of an independent workers comp system also has drawn fire. A state AFL-CIO leader and a legislative supporter in the

state's Legislature have threatened to take the matter to Connecticut's attorney general. But a spokesman for the attorney general said last week that the office has not received a formal request for an investigation.

The critics believe the MPTN's system lacks adequate public review, such as the state Legislature's setting of benefits. Workers' rights may be violated, they said.

Casino officials see the criticism as an attempt by labor to make inroads into their operations.

For Mr. Paton, the implementation of an independent workers comp system is just the beginning of efforts to develop sophisticated methods of handling the MPTN's risks, he said.

"The first idea out of the box was this workers compensation statute, and I think that it is going to prove itself in terms of being a big success," Mr. Paton said.

Except for workers comp, the tribe now purchases coverage for all of its insurable exposures. Tackling workers compensation first was important because the high frequency of those losses represent the casino's biggest exposure, said Patrick E. Jewell, risk manager for Foxwoods casino.

He declined to reveal the number of claims filed at Foxwoods or by tribal employees.

"Suffice it to say there is a significant number of claims, given the

fact that in the casino we have somewhere around 10,000 to 11,000 employees," Mr. Paton said. "You can conjure up what that number would be."

Some of the claims filed by Foxwoods' employees mirror those found in other industries. For example, employees handling large sums of coins suffer injuries found in other companies that require workers to bend over and lift heavy weight.

But there are plenty of claims peculiar to the gaming industry and to a Connecticut casino, Mr. Paton said.

For example, the way blackjack dealers stand, deal cards and control their tables can lead to repetitive stress injuries. At the same time, the nature of the game itself and individual state gaming regulations dictate how they perform those functions and potential solutions to injuries, Mr. Paton said.

"We've had some discussions with other risk managers," he said. "But gaming regulations in New Jersey are different from gaming regulations in Nevada, (which are) are different from gaming regulations here. There are a lot of similarities in terms of the same types of problems, but I don't think anyone has found one solution that can be applied universally."

In the future Mr. Paton foresees videotaping card table operators to find measures that might reduce employees' injuries. **EI**



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**THE BUSINESS
INSURANCE EXPERTS.**



Public and private risks converge at casino

By ROBERTO CENICEROS

MASHANTUCKET, Conn.—Cross a risk manager for a municipality with one for a private conglomerate experiencing explosive growth and you have a rough approximation of the job of Richard Paton, chief risk management officer for the Mashantucket Pequot Tribal Nation.

As risk manager for the tribal government and its 1,000 employees, he weighs risks common to other small governments, such as professional liability for a police department and the doctors and nurses who staff a clinic.

But the MPTN—with about 350 members and a seven-person tribal council that itself resembles a cross between a corporate board of directors and a city council—also owns several enterprises, including one of

the nation's most successful gaming operations. Foxwoods Resort Casino currently employs about 11,000 workers.

And a steady addition of new business operations leads the MPTN's risk management staff to obtain other coverages, such as marine products liability and builders risk.

The tribe is building high-speed ferries to carry passengers from the World Trade Center in Manhattan to Foxwoods.

But business interruption is one of the most significant concerns Mr. Paton and others managing gaming operation risks face. That is likely to weigh more on tribal gaming operations than on other industries, because a halt to guests bringing cash could ruin a tribe's drive for self-determination through economic development.

Another closely guarded asset is the tribe's right to invoke sovereign immunity from state and local jurisdictions. That right arises from a congressionally granted status as a sovereign nation. The proper handling of that status is also linked to the casino's success. And just as business interruption is an insurance purchasing concern, so is the tribe's sovereign immunity.

"There most likely is no other purchase that the tribe will make that can have, if it is not properly handled, an impact on those two items, the revenue and the sovereignty," said Sandy Sampson, an expert in tribal gaming and vp for Aon Risk Services Gaming Group in Atlantic City, N.J. Aon places property/casualty coverage for the MPTN.

A tribe and its insurers, if they choose, can invoke sovereign immunity

as a defense against liability claims. But many gaming tribes prefer to indemnify patrons legitimately harmed on their property. Otherwise, revenue could suffer under negative publicity if injured guests are not made whole.

Foxwoods guards its sovereign immunity status "judiciously," Mr. Paton said. Decisions to change its policy regarding that status can come only from the top.

For example, all liability policies the tribe purchases must stipulate that an insurer will not invoke the tribe's sovereign immunity as a defense against third-party liability claims, Mr. Paton said.

"That's a deal-breaker as far as we are concerned," he said. "If an insurer can't do that, then we just move on to another insurance company. That's how critical and crucial that is. Outside of the tribal council, there is no

one here that has the authority to invoke sovereign immunity."

It is imperative that a broker and insurer understand a tribe's sovereign immunity rights and its desires for handling them, as well as its tribal court and ordinances governing liability issues, Ms. Sampson said.

Purchasers also should know that all insurers are not equal in their grasp of those matters.

Insurers of gaming casinos used to be few, Ms. Sampson said. "However, we are seeing more insurance companies enter the marketplace, and some of them are doing a better job than others. Some are spending time really getting to understand the industry. Unfortunately, some of them will get in there quickly, and they are not long-term players."

Mr. Paton agrees. "There is a small core of companies that historically have refrained or refused to do business with us because of the industry," he said. "It's not so much Native Americans (they refrain from working with). But because of the gaming industry and their uncertainty about it."

Some insurers are wary of tribal law and its unique judicial system, he added.

As for business interruption, the loss of daily income to a casino can easily outweigh the potential loss to a prosperous shopping mall or a huge manufacturing operation, sources said. For Foxwoods, with nearly \$1 billion in annual revenue, daily losses from a business interruption claim would quickly add up.

About 50,000 guests visit the 2.5 million square-foot casino daily. Ongoing construction will add another 1.6 million square feet to the property.

"The greatest potential impact on our current and future earnings potential is a major interruption in business as a result of fire or anything else," Mr. Paton agreed.

Yet many tribal gaming operations are located in rural areas where fire department protection and water sources are often scarce.

So gaming industry insurers often require them to install fire protection systems superior to those used in many other industries. Otherwise, insurers cannot provide the needed insurance limits at an affordable price, Ms. Sampson said.

In response to insurer requirements, many operators of large tribal gaming casinos have obtained highly protected risk status for their properties. Getting an insurance broker and insurer involved before construction begins is crucial because retrofitting costs to meet such standards far exceed the expense of early planning, Ms. Sampson said.

The property coverage for Foxwoods is a typical HPR account, Mr. Paton said. It is spread among Liberty Mutual Insurance Co., Industrial Risk Insurers and CIGNA Indemnity Insurance Co. of North America, with IRI providing the majority of technical advice.

Foxwoods casino has a state-of-the-art fire/life safety center described by Mr. Paton as "space-age." Several sprinkler and alarm technicians monitor the grounds with a computerized system that includes a bank of video cameras. The technicians perform constant inspections and train together as an emergency response team, similar to firefighters.

The fire/life safety department is not a part of risk management. But its lead engineer "is really our first line of defense in terms of property risk management," Mr. Paton said.

It's all part of a concern for patron and employee safety as well as business interruption.

"We can't afford to have any really bad publicity as a result of an unsafe operation," Mr. Paton said. "We have to make sure our patrons feel safe and comfortable." BI

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Opinions

Settlements in jeopardy

THE U.S. SUPREME COURT'S recent rejection of a \$1.3 billion class action settlement because it ran afoul of rules of civil procedure underscores the need for federal reform of our legal system.

Unless federal legislation is enacted giving courts clearer guidance for separating valid mass tort settlements from frivolous actions, all settlements will be tarred with the same brush in the eyes of the courts and will be in jeopardy of being rejected.

Until Congress acts, however, the courts are losing a potential tool for unclogging litigation-heavy dockets, and companies and claimants will duel for years one case at a time before claims are paid. This laborious and contentious process also will surely deplete funds available to pay valid claims while excessively enriching attorneys who take advantage of this flawed system.

The court's action came in the case of *Amchem Products Inc., et al. vs. Windsor, et al.*, which was an appeal of a 1996 3rd U.S. Circuit Court of Appeals decision throwing out the \$1.3 billion settlement between the Center for Claims Resolution and asbestos plaintiffs. The majority in the 6-2 ruling agreed with the 3rd Circuit that the claimants in the class-action settlement were so diverse that they would be unable to meet requirements for forming a class for litigation purposes.

It is unfortunate that the majority has chosen to narrowly focus on whether this settlement meets the strict rules set out by the Federal Rules of Civil Procedure for class action litigation, rather than look at the underlying fairness of the deal for claimants and the asbestos companies that belong to the Center for Claims Resolution.

We agree with two justices who partially dissented. Justice Stephen Breyer wrote, "I believe that the need for settlement in this mass tort case, with hundreds of thousands of lawsuits, is greater than the court's opinion suggests."

Ironically, the judiciary itself is leaning toward new standards for approving class action settlements in recognition of their potential benefits. A panel of The Judicial Conference of the United States, which establishes rules of procedure for state and federal courts, a year ago published a draft paper that recommends permitting judges to approve class-action settlements, even if that same class would not be certified for trial purposes.

The largest potential mass tort settlement to date—the tobacco companies' proposed \$368.5 billion settlement



•THE NARROW LINE OF JUSTICE•

with states—relies on this concept to swiftly and comprehensively settle the morass of litigation over smoking-related illnesses.

Unfortunately, those developments won't protect the ability of other companies and claimants to rely on this tool without congressional action. Already, other class-action settlements are being called into doubt as a result of the Supreme Court's decision. After its *Amchem* ruling, the court declined to review a proposed mass tort settlement between Fibreboard Corp. and thousands of asbestos claimants. That case, while it raised different legal questions, last year won approval from the 5th U.S. Circuit Court of Appeals, which focused on the fairness of the offer rather than the composition of the class.

Congress needs to act—and act swiftly—to give all courts the latitude to judge such settlements on their fairness to claimants. That would preserve the ability of the courts to reject settlements structured to let companies off the hook lightly or to primarily enrich attorneys. But most importantly, it also would preserve the courts' ability to approve such settlements where appropriate so that those who have indeed suffered harm will be compensated for their injuries in an equitable and timely manner.

Letters

NAPSLO not opposed to deregulation

To the editor: The June 2 *Business Insurance* editorial entitled "Speeding Up Deregulation" contains a reference to surplus lines and the industry's position on commercial lines deregulation that compels a clarifying comment from the National Assn. of Professional Surplus Lines Offices Ltd.

The editorial states, "Some surplus lines markets argue against deregulation, saying there is no need because they already are free from much regulation by the states. We think they may actually fear competition from newly deregulated insurers."

While NAPSLO only represents the wholesale surplus lines marketplace, the association, in its testimony last year before the NAIC on commercial lines deregulation, did not oppose or "argue against" commercial lines deregulation. We simply suggested that existing surplus lines laws/regulations should be amended so as to remove unnecessary barriers to accessing the surplus lines market, which would make surplus lines a more efficient mechanism to write commercial insurance on a deregulated basis.

Specifically, NAPSLO suggested the creation or expansion of export lists in the states and the creation of a clearinghouse to assist surplus lines brokers in the payment of premium taxes on multistate surplus lines risks as ways to make the "deregulated" surplus lines market more accessible.

As far as the surplus lines market fearing "competition from newly deregulated insurers," we note that history has shown that in jurisdictions where open competition, within the licensed market arena has occurred, such as in Illinois and, until 1989, in California, the surplus lines market has not only survived, but has also thrived as a supplemental marketplace to the licensed market. These are not the facts upon which "fear" is based.

The *BI* editorial contains an interesting irony on the alleged "fear" factor. Although the editorial suggests that the surplus lines market might "fear competition" from deregulated insurers, the editorial does not actually advocate the use of deregulated insurers, but promotes the "dismantling of regulation rates, forms and market restrictions" for large commercial policyholders as the route to the promised land. Under this approach there are no "deregulated insurers" to fear. There is only the "deregulated buyer" who is already substantially deregulated in its efforts to obtain coverages.

For the record, NAPSLO has neither opposed commercial lines deregulation nor fears it. What NAPSLO has said is that when the deregulation knife is used to cut away at commercial lines constraints for admitted insurers, some whittling should also occur to remove the fetters that prevent surplus lines from maximizing its potential as an effective

market for placement of commercial insurance on a deregulated basis.

Gary D. Westphalen
President
National Assn. of Professional
Surplus Lines Offices Ltd.
Oklahoma City

Insurers committed to safety

To the editor: We are writing to comment on the remarks of Dr. Jennifer Christian in the May 26 Perspective article, "Managing Comp Care a Challenge."

We agree that work-related injuries and illnesses are preventable. We also agree that standards for loss prevention are important, albeit often not properly implemented. However, Dr. Christian then suggests that the failure of the workers comp system is its "inattention to preventing injuries" because of insurer concerns that loss prevention "would jeopardize their income stream." This view causes us considerable concern.

See Letters on page 12

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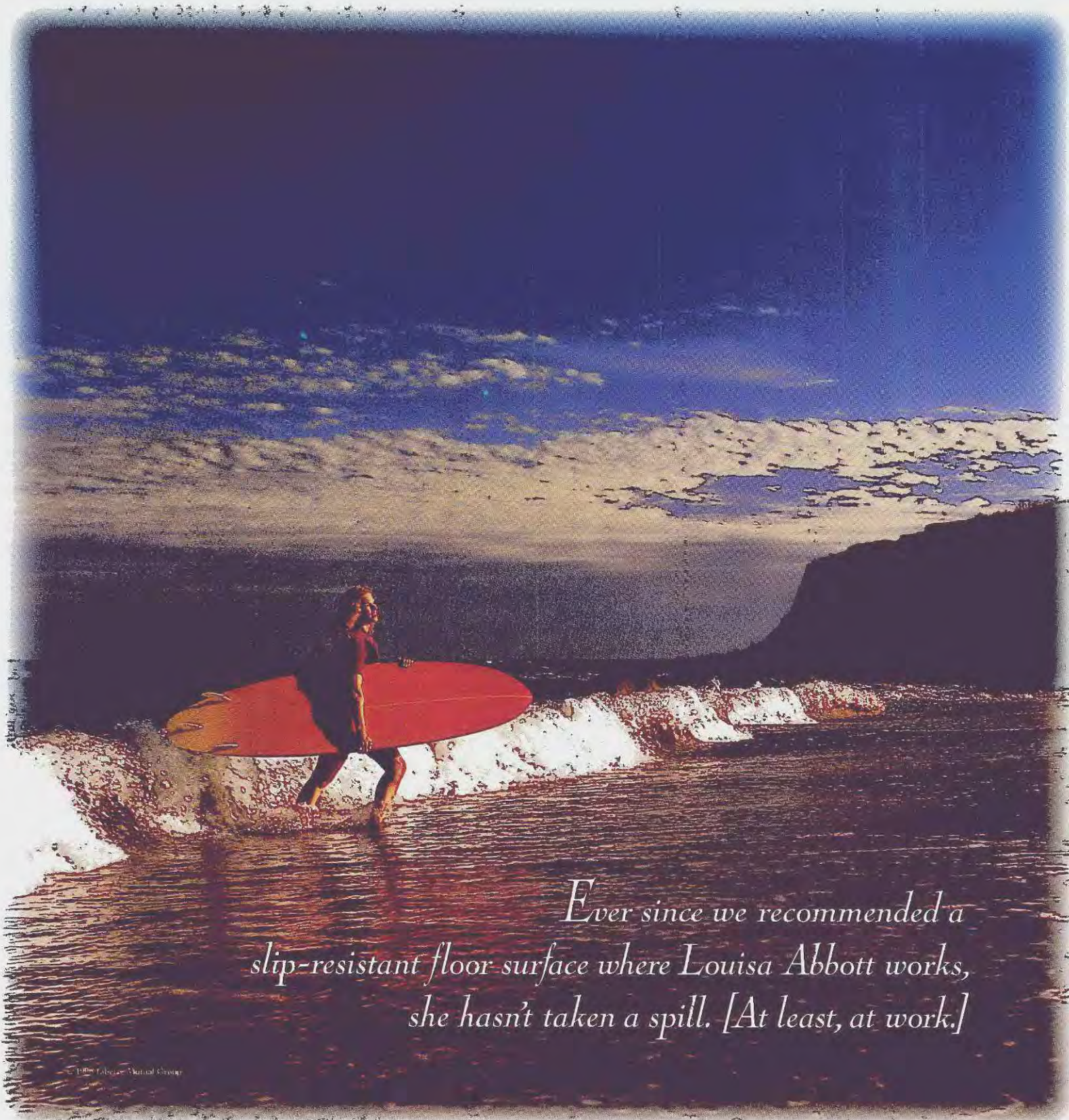


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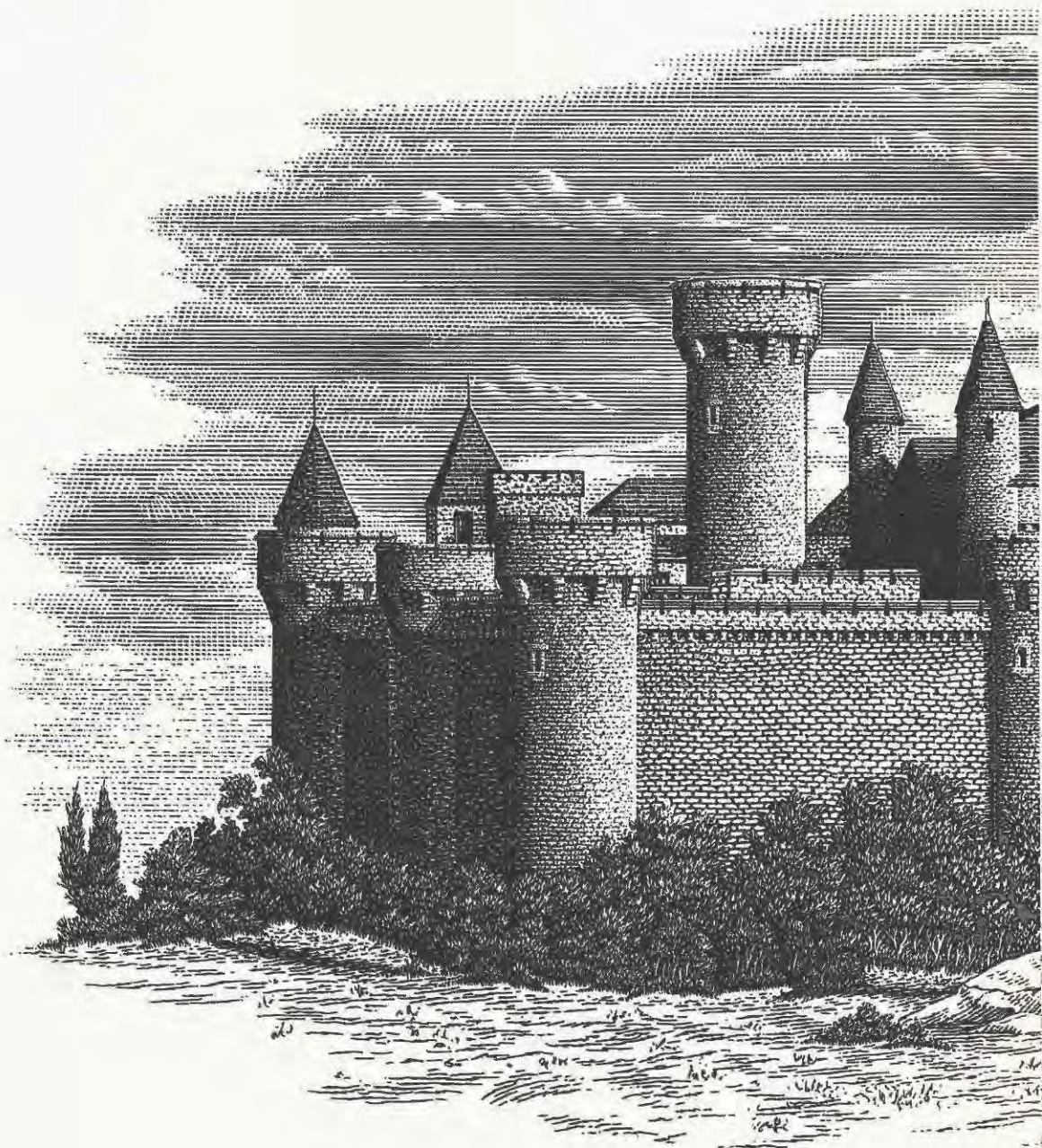
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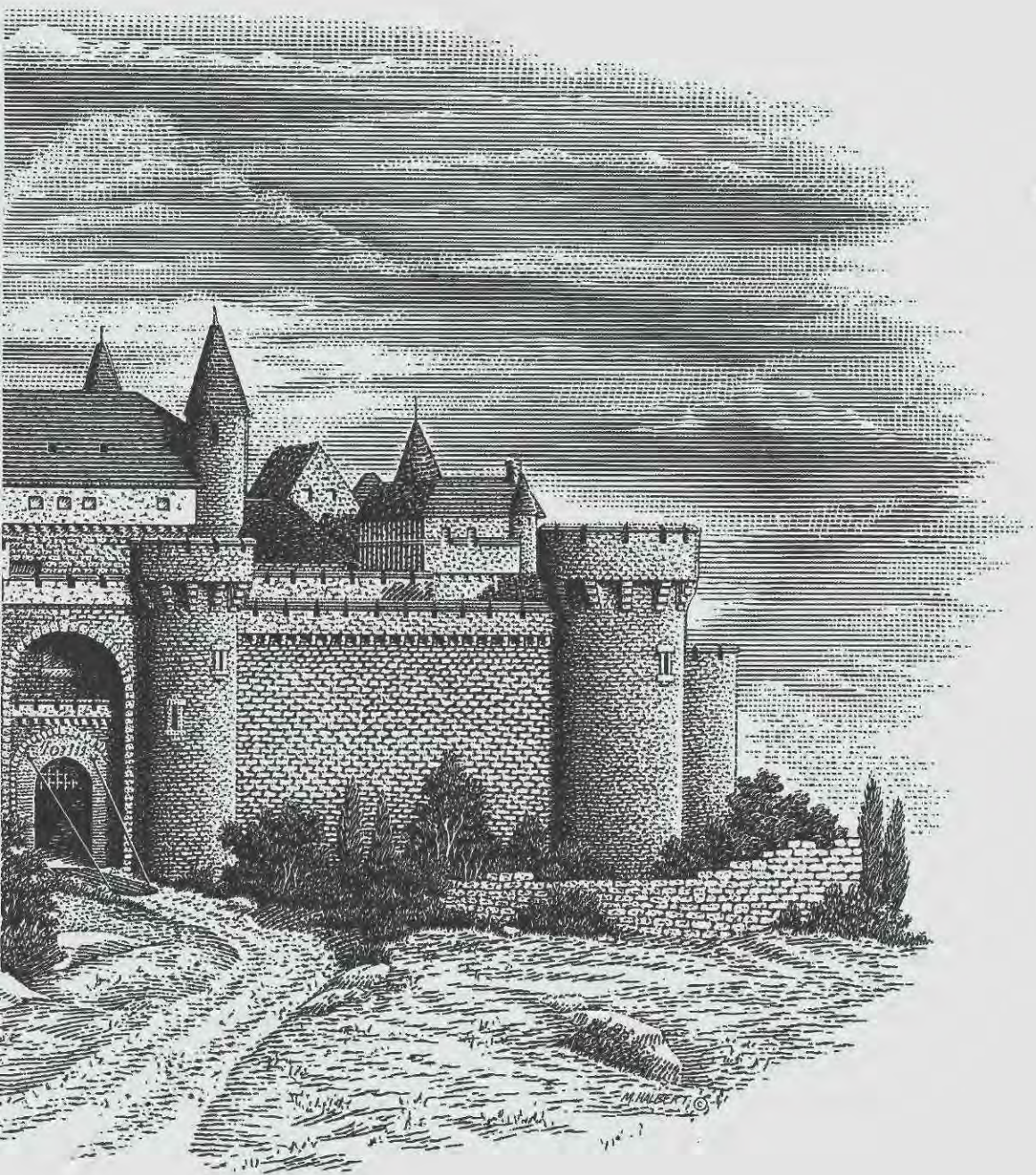


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Letters

Continued from page 8

As a safety professional employed in the insurance industry for more than 30 years, and as a manager of an insurance industry-supported organization that has dedicated itself to loss prevention for more than 130 years, I can attest to the industry's longstanding support of safety standards and the commitment of the approximately 8,000 safety professionals in the industry to loss prevention.

As far back as the 1800s, the insurance industry has been a constant supporter and driver of loss prevention standards in areas from fire and life safety to machine guarding, industrial hygiene and security. Since 1866, our company has worked to develop adequate loss prevention standards, and our industry has promoted loss prevention as an important activity for policyholders. Our industry

was the publisher of the first model code for the construction of safe buildings in this country. We contributed to the origins of such well-respected safety organizations as Underwriters' Laboratories and the National Fire Protection Assn.

We currently have representatives working directly on more than 60 committees developing safety standards that are used in manufacturing plants, at worksites and in homes throughout the United States.

The 8,000 safety professionals employed by insurers in this country work conscientiously and constructively to reduce the frequency and severity of work-related injuries and illnesses.

These things are done with the support of management, without concern for reduced income. The objectives are to increase profits through reduced

claims and to create more competitive and affordable rates.

In addition, the industry provides employers with significant financial incentives to reduce losses, such as "experience modifiers" for workers compensation premiums.

While we certainly share Dr. Christian's concerns regarding the prevention of injuries and illnesses, we want to be certain that readers do not accept the misleading picture of insurers she presented—especially since the insurance industry historically has proved itself to be a strong proponent of safety standards and loss prevention.

Gerald E. Lingenfelter
Vp-Engineering and Safety
Service Division
American Insurance
Services Group Inc.
New York

Surplus lines rules need deregulation, too

To the editor: When I first entered the insurance field, it was my understanding that the distinction between admitted and non-admitted policies was more than that the former was subject to stricter scrutiny by the state insurance department and was backed by the state guaranty fund, whereas the latter was not. Rather, it was my impression that admitted policies had the benefit of the state intervening on the policyholder's behalf to ensure that policy provisions provided greater protection for the policyholder.

In practice, I have found that not

to be the case. For example, I recently worked on an account in which the same insurer was willing to offer the same type of policy on an admitted and a non-admitted basis. The admitted policy carried with it a state amendatory endorsement requiring coinsurance and removing the "in fact" determination requirement for the fraud and illegal person profit exclusion. The non-admitted policy, free of state restrictions, was identical in every other way but that it would not carry these provisions.

Working for an independent insurance agency, I believe it is my primary obligation to locate and obtain the best coverage for the best cost for my client. However, the Excess Lines Assn. in my state requires three declinations from admitted insurers before insurance for non-admitted coverage can be placed. This puts my duty to my client at odds with my duty to the state.

I think that, if the state is going to put more restrictions on admitted policies, it has no business requiring clients to place their business there. Surplus lines taxes provide a disincentive where coverage discrepancies do not materially exist. On the other hand, the client should be able to get the best protection without state interference.

This leads to two conclusions:

- First, one should be able to place with a non-admitted insurer if one cannot procure similar coverages, not merely similar policy types. Obviously price alone cannot be the determining factor; rather, coverage differentials should be what underlies the competitive advantage between one policy and another.

- Second, three declinations would seem to be unnecessary if the difference in coverage is based upon an amendatory endorsement required to be put on all admitted policies in that policy class. Why should the time and effort of two additional underwriters be wasted when the state requirement makes one admitted policy suffer from the same deficiency as another compared to a non-admitted one?

The state Excess Lines Assn. does not require declinations on certain classes of business where coverage is in scarce supply; why, then, should it require declinations where the state's own regulations have made a coverage feature not merely scarce but non-existent in the admitted market?

Beth Avery
R.P. O'Brien & Co.
White Plains, N.Y.

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Bill would let voters decide if regulator should be appointed

Measure introduced in California

By JOANNE WOJCIK

SACRAMENTO—After legislation that would have banned industry contributions to California's elected insurance commissioner failed to muster the votes necessary for passage, a state senator has introduced a measure that could restore the post to a governor-appointed position.

The commissioner's office became an elected position in 1989 when voters approved Proposition 103.

Proposition 103, approved by California voters in November 1988, required most property/casualty insurance "charges" in effect from November 1988 to November 1989 to be rolled back to 20% below November 1987 levels.

If approved by a legislative majority and signed by Gov. Pete Wilson, S.B. 225 would put on the June 1998 ballot an initiative that gives the governor power to appoint the commissioner. The bill has been scheduled for its first hearing July 8 before the Assembly Insurance Committee.

Both S.B. 225 and S.B. 1097, the defeated campaign contribution measure, came in response to recent allegations that current Commissioner Chuck Quackenbush is beholden to insurers because they contributed to his 1994 campaign.

"Electing the head of the department of insurance is an invitation to undue influence and even corruption," said Sen. Quentin L. Kopp, an independent from San Francisco, in a press release announcing the measure's June 11 introduction.

In a press release responding to Sen. Kopp's bill, Insurance Commissioner Quackenbush said he agrees that the office should be an appointed position. That had been the recommendation of a constitu-

'Electing the head of the department...is an invitation to undue influence and even corruption,' says state Sen. Quentin Kopp.

tional commission that reviewed Proposition 103 last year, he pointed out.

However, the commissioner also said he has not yet reviewed Sen. Kopp's proposal and would have no further comment until he has had an opportunity to do so.

While insurer group Personal Insurance Federation of California praised Sen. Kopp's attempts to "take the politics out of the California insurance commissioner's office," the state's leading consumer group was more critical.

"A gubernatorial appointee is never accountable to people, only to the governor's campaign contributors," said Harvey Rosenfield, executive director of the Proposition 103 Enforcement Project.

In a letter to Sen. Kopp, the consumer group suggested that he also introduce legislation to place yet another initiative on the June 1998 ballot prohibiting insurance industry contributions to insurance commissioner elections.

"If Sen. Kopp wants the electorate to make a choice, he should give the voters a real choice," Mr. Rosenfield said. "The electorate could then choose between an appointed commissioner and an elected commissioner who would not be permitted to accept insurance industry contributions."

Mr. Rosenfield's group also pointed out that the record of the last appointed insurance commissioner, Roxani Gillespie, was less favorable to consumers than that of the two elected commissioners who succeeded her. Ms. Gillespie was insurance commissioner when Proposition 103 passed in 1989.

"Even a pro-industry commissioner like Quackenbush has been forced to institute some pro-consumer reforms because he faces the electorate's scrutiny," Mr. Rosenfield said.

However, Ms. Gillespie, now an attorney with Buchalter, Nemer, Fields & Younger in San Francisco, pointed out that she was unable to enforce the pro-consumer reforms contained in Proposition 103 because the measure was tied up in litigation until 1995.

"So Mr. Quackenbush is the first commissioner to be able to implement Proposition 103," she said. **BI**

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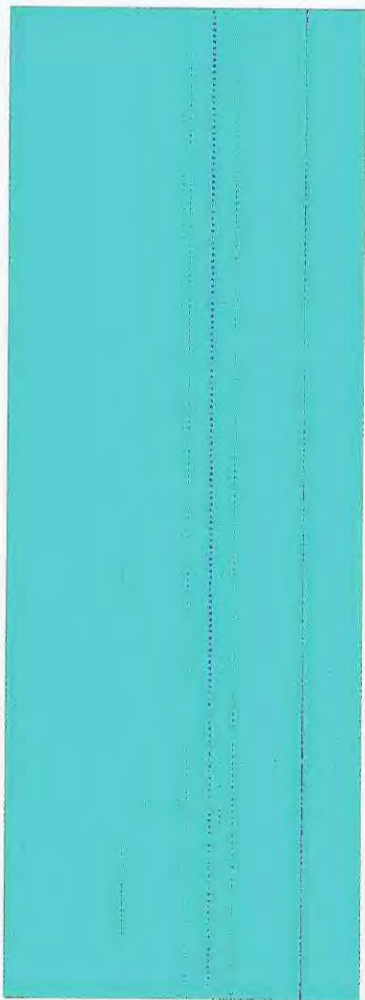
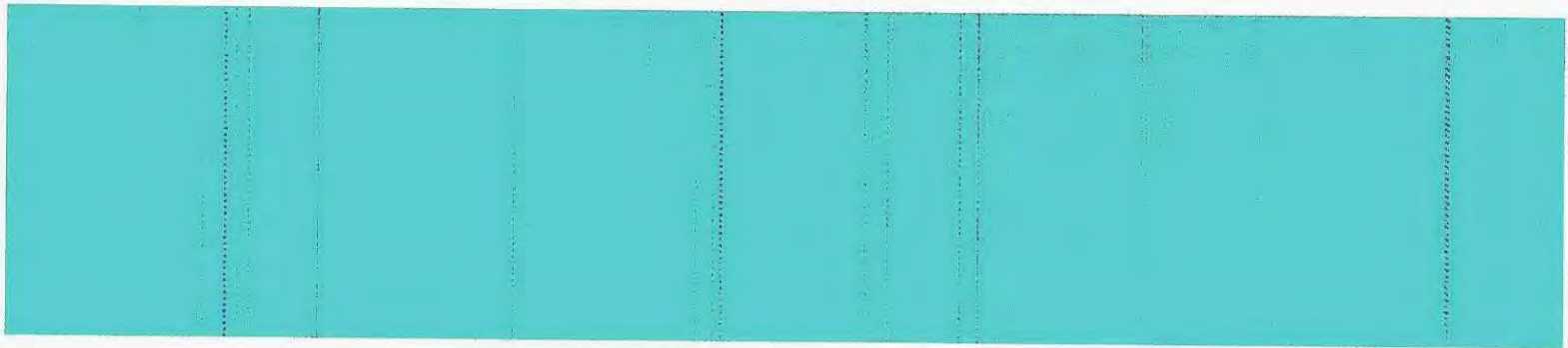
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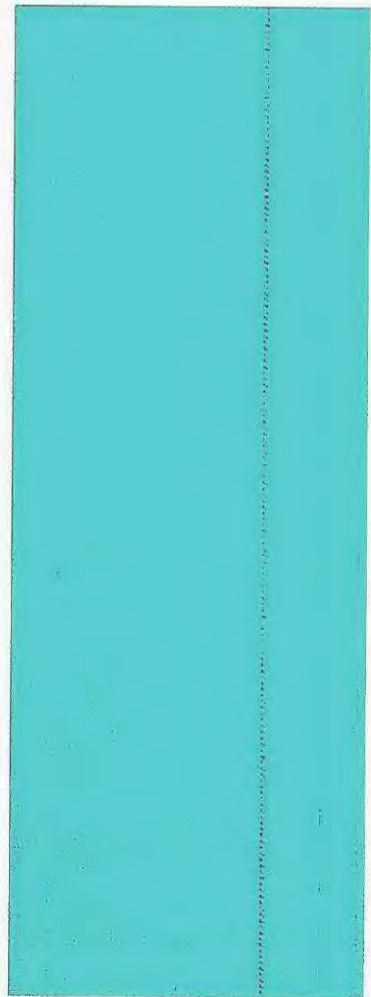
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HCC Insurance names Bramanti president

Frank J. Bramanti has been promoted to president of HCC Insurance Holdings Inc., replacing **Stephen J. Lockwood**, who was appointed vice chairman of the Houston-based specialty insurance group.

Edward H. Ellis Jr. succeeds Mr. Bramanti as senior vp and chief financial officer, and **Peter B. Smith Jr.** was named executive vp and chief operating officer. Mr. Smith also was named president of HCC's main subsidiary, Houston Casualty Co.

Also at HCC: **L. Edward Tuffly** named senior vp and treasurer; **Patricia A. Pavlick** named vp and chief information officer; **Mark A. Buechler** named vp and controller; and **Christopher L. Martin** named vp and general counsel.

In other insurer changes:

Gregory E. Murphy named president and chief operating officer of Selective Insurance Group Inc. in Branchville, N.J. Mr. Murphy, who was senior vp and chief financial officer, fills a new position.

Also at Selective, **Jamie Ochiltree III** named executive vp, and **John P. Whitehead** named vp.

W. Gordon Knight named president and chief operating officer of American International South Insurance Co. in Charlotte, N.C., a subsidiary of American International Group Inc. Mr. Knight, replaces **Thomas S. Carpenter**, who retired.

Jean M. Scarrow named executive vp and chief operating officer of Boston-based Liberty Mutual Insurance Co.'s group market, with responsibilities for the company's group disability and group life operation. Ms. Scarrow replaces **Maryann P. Sullivan**, who left the company to pursue a consulting career.

Bob Gonor joined Reliance National Insurance Co. as senior vp for the company's new affinity marketing division in New York. Mr. Gonor has 23 years of insurance industry experience.

Donna M. Driscoll has joined Hartford, Conn.-based Travelers Property Casualty Corp. in the newly created position of senior vp-marketing, commercial lines. Ms. Driscoll previously was senior vp-marketing and chief strategist for AT&T Capital Leasing Services.

L. Keith Birkhead named president and CEO of the Farmers Alliance Mutual Insurance Co. in McPherson, Kan., replacing **James L. Ketcherside**, who remains chairman.

David H. Popplewell named president and chief operating officer of The Cincinnati Life Insurance Co., succeeding **James A. Currin**, who retired.

Agents/brokers

Willis Corroon Corp. recently made several appointments. **Glenn A. Totino** was named regional director of the broker's Texas operations and president and CEO of its Houston retail office. He succeeds **Gary H. Cooper**, who was named president and CEO of Willis Corroon's U.S. wholesale operations.

M. Monte Richardson named president and CEO of Willis' San Diego retail operations. He succeeds **J. Randolph Pugh**, who was named to manage the company's Alaska operations.

John W. Chaney named president of Willis' Cleveland division. He joined Willis after serving as

Comings & Goings: Industry

president and CEO of Aon Risk Services Inc. of Ohio. Also at Willis, **John W. Brockschmidt** named senior vp and **Deborah A. Yuncck, Mary M. Johnson**, and **Ralph Reeves** named vps at Willis Corroon Corp. of Michigan in Southfield.

C. Jeff Pan named chief financial officer and executive vp of Summit Global Partners Inc. in Dallas.

Michael J. Mackey named vp-public sector group for Near North Insurance Brokerage Inc. in Chicago.

Dianne M. O'Donnell named

president of PRISM Insurance Services Inc., a Chicago-based broker specializing in the health care industry.

Michael E. Toner named chief operating officer in the Boston office of Aon Risk Services Cos. Inc.

Jacky Turner named vp and chief operating officer of Environmental & Commercial Insurance Agency Inc. in Columbus, Ohio.

Sedgwick Inc. recently made several appointments: **Patrice Sampson** and **Timothy McNelly** named vps in the commercial division for Sedgwick of New York

Inc.; **John Sacia** named president and managing executive of Sedgwick James of Washington Inc. in Seattle. He was previously CEO of Aon Risk Services' Seattle office; and **Martin Webster** joined the North American Mining Group of Sedgwick in Knoxville, Tenn., as the senior risk management resource person for national and global mining accounts.

Reinsurance

Ronald S. Hayden named vp of Odyssey Reinsurance Corp., based in its Atlanta office.

Jim Snedeker joined Am-Re Managers in Princeton, N.J., as vp and will be working with Fortune 1,000 clients. Previously, he was a

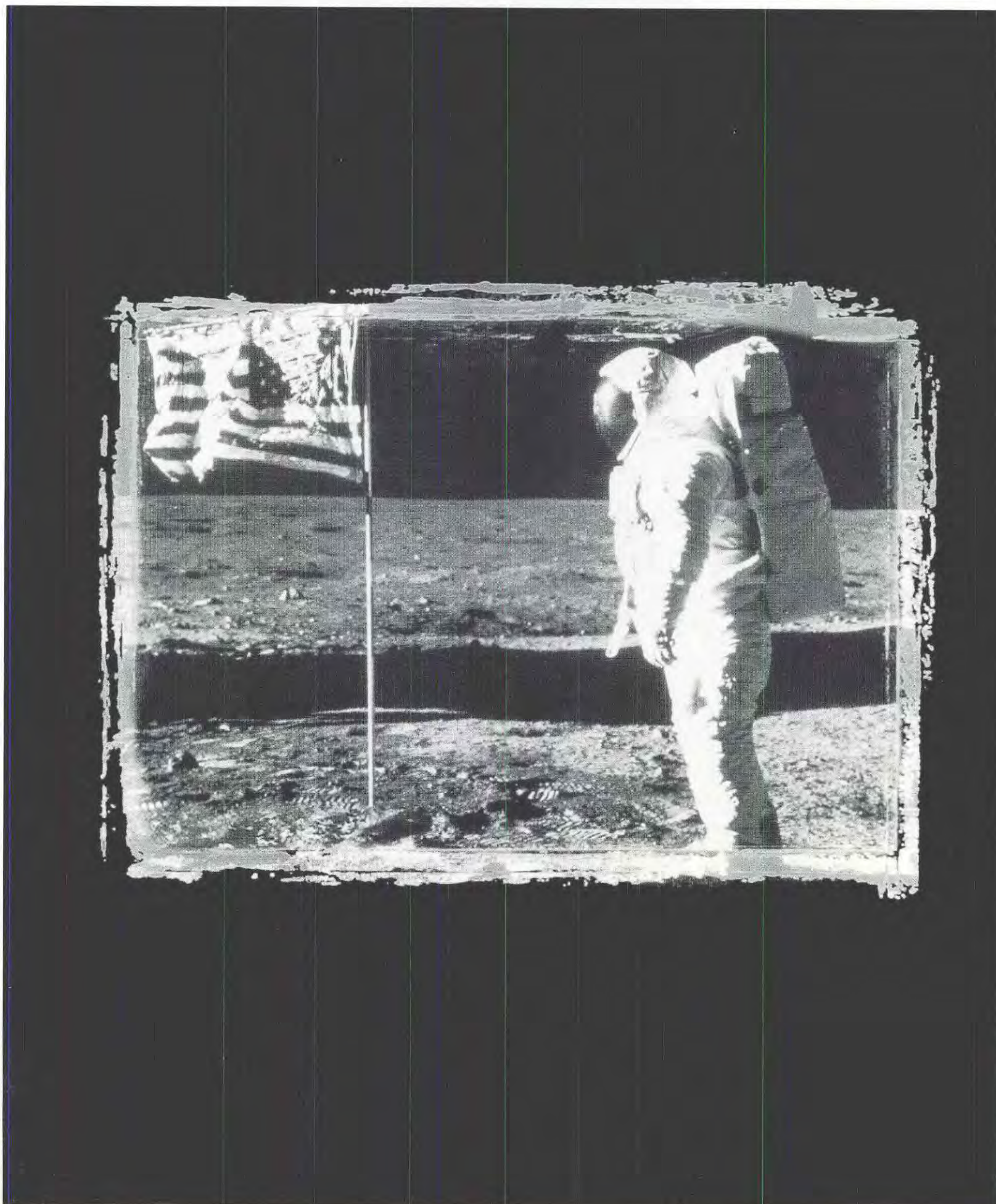
senior vp for Aon Re Worldwide in Stamford, Conn.

Katherine A. Anderson named vp and chief product actuary, **Brian Holland** named vp-sales and international risk management, and **Bill Wojciechowski** named vp-business consulting and financial markets for Security Life Reinsurance in Denver.

David I. Sullivan joined Peglar & Associates Inc. as senior vp with responsibilities for the development of business in the program, alternative markets and captive areas in Stamford, Conn. Previously, Mr. Sullivan was senior vp-treaty marketing at Aon/Alexander Re.

Brian Gulbransen named vp-

Continued on next page



Continued from previous page
marine underwriting at Risk Capital Reinsurance Co. in Greenwich, Conn. Previously, he was second vp at NAC Reinsurance Co.

Francois Bertrand named executive vp of Commercial Risk Partners, the Bermuda-based subsidiary of SCOR Group that focuses on non-traditional reinsurance.

Other suppliers

Christy L. Beaudin named vp-quality management and **Stephen H. Braun** named vp-quality management, public sector division at Value Behavioral Health, an Avon, Conn.-based managed care company.

Kevin L. Murphy Jr. named vp-sales with responsibility for the managed care business segment of Merck-Medco Managed Care

L.L.C. in Montvale, N.J.

James J. Crowley III named senior vp of U.S. Care Inc., the Atlanta-based long-term care management company.

Barry E. Thompson joined the risk assessment and management practice of Deloitte & Touche L.L.P. as national practice co-leader of its disability management unit in New York. Previously, Mr. Thompson was a vp and managing consultant of Aon Corp.

George T. Schepp joined the Insurance Services Office Inc. as vp-sales in New York. Mr. Schepp was previously vp-global sales and service for Standard & Poor's Corp.

John Leonard Watson joined the environmental law practice group of Freeborn & Peters in Denver. He was previously with Holme, Roberts & Owen.

Richard F. Federico joined the

New York office of The Segal Co. as a consultant specializing in work/life design strategies. Previously, Mr. Federico was with William M. Mercer Inc.'s Stamford, Conn., office, where he was a national resource on work/life issues.

Jeffrey M. Yates named senior executive vp and general counsel, and **Paul A. Equale** named executive vp-public affairs for the Independent Insurance Agents of America Inc. in Alexandria, Va.

Gary Morrison joined the Seattle office of Buck Consultants Inc. as a principal and consulting actuary. Mr. Morrison's expertise is in the design and funding of retirement plans, the coordination of plan assets and liabilities and mergers and acquisitions.

Howard Fine has joined the New York office of Watson Wyatt Worldwide as a managing consultant.

Bandag promotes risk manager Eaton

Comings & Goings: Buyers

Dave Eaton has been promoted to director-legal and risk management at Bandag Inc. in Muscatine, Iowa.



Mr. Eaton

Mr. Eaton, 46, joined Bandag in 1980 as risk/insurance analyst and was promoted to manager, risk and insurance, in 1983. In his newly created

position, he is responsible for all of the domestic and overseas legal and risk management services for the manufacturer of tire retread material and equipment.

In addition, Mr. Eaton was elected assistant secretary of the corporation. He reports to Warren Heidbreder, chief financial officer.

Mr. Eaton earned a bachelor of science degree in business administration from Northeast Missouri State University, now known as Truman State University, in Kirksville, Mo.

He holds the Associate in Risk Management Designation from the Insurance Institute of America.

Wayne Cramer, 46, has been named director-global risk management at Joseph E. Seagram & Sons Inc. in New York.

Mr. Cramer is responsible for the risk management functions of the maker of distilled spirits, a subsidiary of The Seagram Co. Ltd. of Montreal. He takes his new post after leaving Goldman Sachs & Co. where he worked as vp-Insurance Productions Group/ Firmwide Risk Management since 1993.

He succeeds **Donald Davignon**, who is retiring after 20 years of service with Joseph E. Seagram. Mr. Cramer reports to John Preston, vp, finance.

He received a bachelor of arts in marketing and a masters of business administration from Seton Hall University in South Orange, N.J.

Debbie Drinane has been promoted to director of risk management at Dean Foods Co. in Franklin Park, Ill.

Ms. Drinane, 38, is responsible for the company's entire risk management program. She and her staff will continue to manage the company's brokers, consultants and claims administrators. Ms. Drinane has spent 17 years with Dean Foods, most recently as corporate insurance and safety manager. She will continue to report to Eric Blanchard, vp, secretary and general counsel.

Ms. Drinane attended Triton Junior College in River Grove, Ill., studying business administration. She earned the Associate in Risk Management designation from the Insurance Institute of America and is a member of the Northeastern Illinois chapter of the Risk & Insurance Management Society Inc.

Cheryl Williams-Meggett has been named director, compensation and benefits, at Lever Brothers Co.

Ms. Williams-Meggett previously was manager of savings in the human resources department of the New York-based manufacturer of soap, detergents and food products.

She replaces **Stephen Pass**, who was named director of benefits at Lever Brothers' New York-based parent, Unilever United States Inc.

Ms. Williams-Meggett reports to Jim McCall, vp of human resources at Lever Bros.

She earned a bachelor of science degree in accounting from Babson College in Babson Park, Mass., and holds the Certified Employee Benefit Specialist designation.

We'd like to report on staff changes in your company's risk management, safety and employee benefit departments. Contact Michael Bradford, Associate Editor, Business Insurance, Suite 114, 8950 N. Central Expressway, Dallas, Texas 75231; 214-361-2295; fax: 214-696-1936. Please send a photograph, too.

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Integrate

Continued from page 2

tion, while human resources is regarded as providing more ambiguous "touchy-feely" services in a company, Mr. Ritzky explained.

Ms. Cortese and Mr. Ritzky made their remarks during a session titled "The Inevitable Synthesis of HR and Risk Management: Are You Prepared?" at the 19th Annual Society for Human Resources Management conference June 22-25 in San Diego.

Unlike risk managers, very few human resources professionals "came through the accounting door. . . we came through the soft science door," Mr. Ritzky observed.

Risk management also tends to get more attention from senior management because its budget—which usually includes insurance premiums—generally is larger than that of human resources, Ms. Cortese pointed out.

"When you've got a \$2.5 million or \$3 million budget, people are usually going to pay attention when you say, 'Guess what?'" she said.

Yet risk management and human resources share a common objective of enabling an organization to progress toward its mission in the most direct, efficient and effective path, Ms. Cortese asserted.

Now that more and more employees are successfully suing their employers for various employment-related claims—creating major financial exposures for the corporation—human resources is getting a lot more attention, she said.

Indeed, "there are CEOs out there who are saying, 'Wow, we spent more on settling employment claims than we did on warehouses burning down last year,'" Mr. Ritzky said.

"There's a lot of focus at risk management conferences on what are we going to do about these big people losses" he said, citing the annual Risk & Insurance Management Society Inc. conference.

Such scrutiny is forcing human resources managers to be more accountable for employment-related losses.

If they're not already, a lot more human resources managers are going to be reporting to risk management, he predicted.

"I think that we've been asleep at the wheel for a long time," Ms. Cortese said.

Now it's time for human resources managers to get more involved in managing the risks associated with their function, including purchasing employment practices liability insurance to transfer as many of these risks as possible, she urged.

"Who is best equipped to negotiate and evaluate that policy?" she asked attendees. "Shouldn't you be in the tent?"

The experience is certain to be a real eye-opener for many human resources professionals, Ms. Cortese promised.

For example, many human resources managers likely will be surprised to find out that they must undergo an internal audit of their employment policies and practices before their companies will be covered by employment practices liability insurance.

"Are you going to be able to pass the HR audit?" she asked. "You know, when your company buys property insurance they have people come and do an inspection, right? Well, they're doing the same thing with HR. They're going to tell you how to run HR."

Other risk management issues are associated with buying EPL insurance, Ms. Cortese said.

Information supplied with a coverage application could widen

asked.

Few organizations should automatically provide the type of detailed information requested on the EPL insurance application,

"There are CEOs out there who are saying, 'Wow, we spent more on settling employment claims than we did on warehouses burning down last year,'" Gary Ritzky says.

the company's exposure if it is obtained by employees suing the company in the future, Ms. Cortese noted.

"What will happen in litigation in employment practices liability when it's determined we have insurance to cover it?" she also

because everything included in the insurance application could be subject to disclosure during the discovery process of a lawsuit, according to Ms. Cortese.

For example, some EPL insurers require employers to follow a policy of providing detailed written

offers of employment to job applicants, according to Ms. Cortese.

"For how long have our attorneys said we ought not do this?" she asked. "But it's on the (insurance) application."

Insurers also may request the past five years' claims history—information that should be kept confidential to minimize a company's exposure, she added.

"When you get sued, the first thing the plaintiff's lawyer wants is a copy of your insurance policy. And attached to your insurance policy is your signed application. And your application in the back of it—look at all this stuff! In your best day, would you ever give a plaintiff's lawyer the stuff that's on that application?" she asked. "It's a dream come true for the plaintiff's counsel. You just gave it all to him."

To protect their organizations from such disclosure risks, human

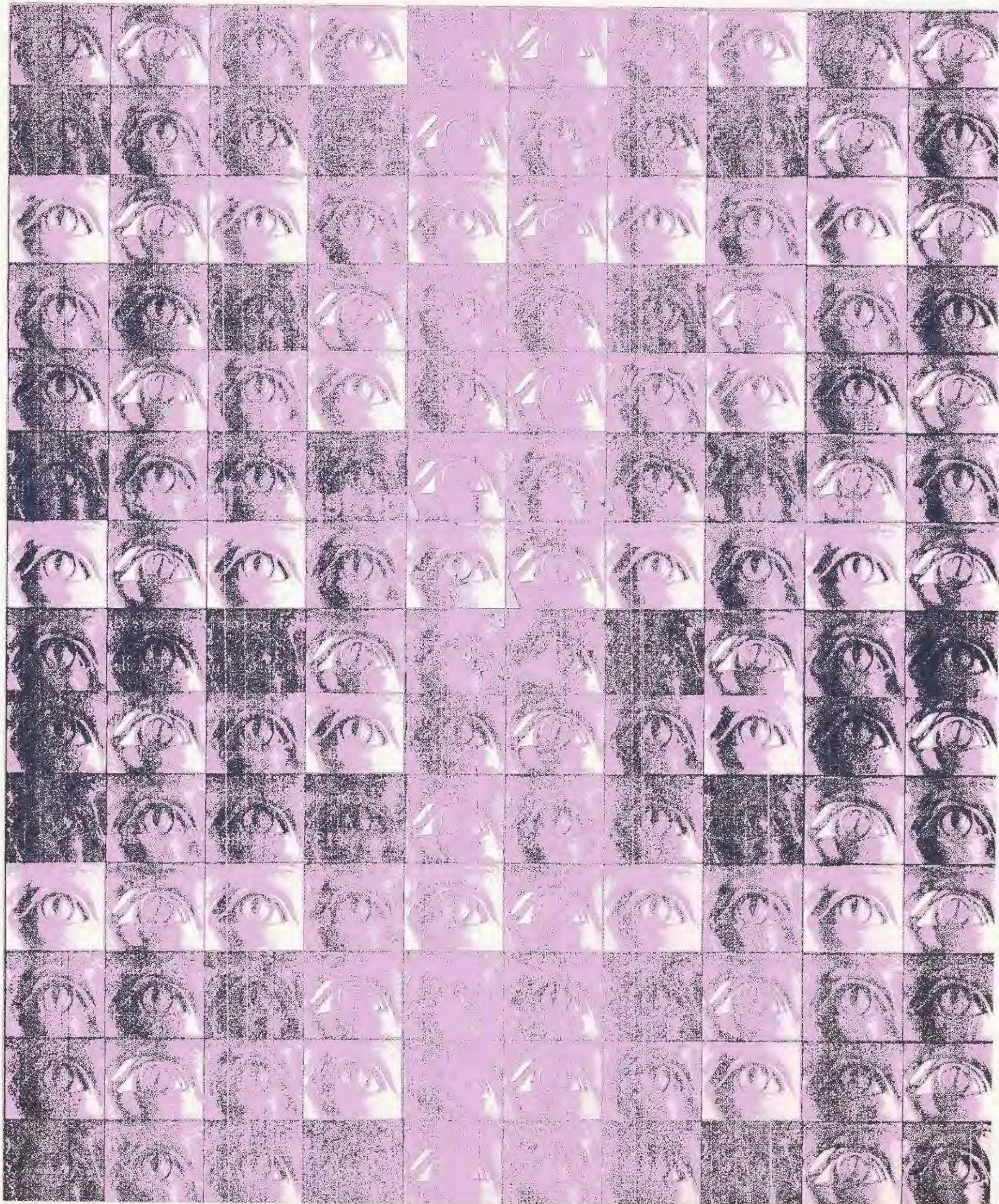
resources and risk managers should request that certain information be omitted from the application even if it's revealed to underwriters, Ms. Cortese advised.

She also recommended a close reading of EPL policies to determine what's covered and what isn't.

For example, most EPL policies don't cover punitive damages, which usually represent the bulk of employment liability awards.

On the positive side, "These policies aren't standard. They're mostly manuscripts, so you can add endorsements," Ms. Cortese said.

Among the endorsements that human resource managers should consider requesting are coverage for claims arising from customers and clients, as well as discrimination and sexual harassment claims by non-employees, Ms. Cortese suggested. **EI**



Strategic, streamlined HR crucial

Department striving to keep pace with fast-growth of computer maker

By JOANNE WOJCIK

SAN DIEGO—Human resource departments have to be lean, mean, strategic-thinking machines to help manage their organizations' growth without getting too big themselves, says a human resource executive for a leading computer company.

"You've got to be good at the basics" of human resource management "so you can move up to be a strategic business partner to help your company grow the business," said Amy C. Baker, manager of executive development for Round Rock, Texas-based Dell

Computer Corp.

"You also need to know the language of the business your company is in so you can bring up the issues they're really concerned about rather than touchy-feely HR stuff," she added.

Ms. Baker gave tips on transforming the human resources function at the 49th annual Society for Human Resource Management conference June 22-25 in San Diego.

Ms. Baker, who started at Dell in

1989 and has had seven title changes since then, explained she has experienced continuous change in her duties at Dell because of the company's rapid growth since it was founded in 1984.

Dell's 1997 revenues are expected to top \$7.8 billion, up almost 50% from \$5.29 billion in 1996. The world's leading direct seller of personal computers has offices in 28 countries staffed by 10,000 employees and still is growing, she said.

"We're hiring 100 people a week," she said. "You've heard of the cobbler's children going barefoot? Well, we have new people starting every week, and we can't get computers to them fast enough."

The challenge for Dell's HR de-

partment has been keeping up with the growth without growing as fast as the business, according to Ms. Baker.

"We're part of overhead," she explained.

The reorganization of the human resources function that Ms. Baker launched 2½ years ago is a "work in progress," she said.

Initially, in an effort to keep human resources' budget in check, she decided to outsource "non-expert" activities, including benefits administration, health and wellness, occupational health, relocation services, training delivery and stock purchase and option exercise administration.

She also reorganized the HR department by putting managers in charge of three lines of business:

training, staffing and compensation. Each manager now arranges services as needed by line managers. Some services, such as design of benefits, still is done in-house, but execution for the most part is outsourced. For example, William M. Mercer Inc. handles benefits administration, an area health club operates the corporate fitness program and a local occupational clinic handles workers compensation treatment for the company's 9,000 employees in the corporate headquarters.

To illustrate how the HR department administers services today, when Dell decided to develop a new product line, the training manager was contacted to provide additional training to existing salespeople to handle the new product. Likewise, the central staffing manager was "employed" by the manager of the new line to hire and relocate employees as needed.

The company's line managers also have direct computerized access to such information as an employee appraiser program to conduct performance reviews; an on-line decision-making tool; and an electronic "how to" guide to answer specific HR questions such as how to fire someone without triggering a lawsuit.

The Dell human resources department also has its own site on the company's intranet, providing its employees access to personalized data on benefits, education, safety, security, payroll, even company policies.

"We have no policy manuals anymore. We're completely paperless" since 1994, she said.

The company also provides employees access to an outsourced "HR Service Center" either via personal computer or telephone.

The center, staffed by 20 Dell employees, frees up Dell's human resource managers to concentrate on strategy rather than on conducting time-consuming, hands-on services such as open enrollment, Ms. Baker explained. **B**

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Gathering draws almost 10,000

SAN DIEGO—Nearly 10,000 human resource professionals and service providers attended the Society for Human Resource



Management's 49th Annual Conference and Exposition June 22-25 at the San Diego Convention Center.

The event featured more than 150 seminars on emerging trends and practices in the human resource management field and a trade show with more than 500 vendors.

Next year's SHRM conference will be held June 14-17 in Minneapolis.

For further information regarding future conferences or the organization, contact SHRM, 606 N. Washington St., Alexandria, Va. 22313-1997; 703-548-3440; 800-283-7476; fax: 703-836-0367; e-mail: prodev@shrm.org; or visit its home page on the World Wide Web at <http://www.shrm.org>.

Majority of firms hit by EPL suits

Nearly 75% of HR execs contend that most claims lack merit: Survey

By JOANNE WOJCIK

SAN DIEGO—Six out of 10 companies have been named as defendants in at least one employment-related lawsuit in the past five years, a new survey of human resources professionals finds.

In addition, 23% of respondents also say individuals at their organizations have been sued in connection with employment-related claims.

In spite of the level of litigation, most human resource professionals surveyed believe employment-related lawsuits are without merit, according to the survey of members of the Society for Human Resources Management.

When asked whether the "majority of employment-related litigation cases today are legitimate claims," nearly three-quarters, or 74%, said they disagreed or strongly disagreed.

"The employee rights revolution is alive and well," said Michael J. Lotito, managing partner of the San Francisco law firm Jackson, Lewis, Schmitzler & Krupman, at a press conference held during SHRM's 49th Annual Conference and Exposition, June 22-25 in San Diego. The "1997 Employment Litigation Survey" was conducted jointly by SHRM and the law firm.

"Employers must take preventive measures to avoid such lawsuits," he said.

For example, "firms must provide proper training and explore strategies such as alternative dispute resolution to resolve disputes before

they become costly and time-consuming," Mr. Lotito said.

"And businesses must be alert for potential liability due to growing workplace privacy concerns," he said.

Mr. Lotito pointed out that 22% of respondents said their organizations had purchased employment practices liability insurance, though 31% did not know if they had such insurance.

"This underscores that HR may not be in communication with the risk side" on this important issue, he said.

The survey also found:

- Nearly half of the 611 suits reported involved a discrimination claim of some sort, with the biggest sources of such claims being allegations of race or national origin discrimination and age discrimination.

- One-third of the reported claims involved allegations of wrongful termination. That was followed by claims of sexual harassment, 14%; claims alleging a National Labor Relations Board charge or a Family and Medical Leave Act violation, 6%; workers compensation or wrongful death claims, 6%; and wrongful retaliation, 5%. Respondents in some cases

cited multiple reasons for claims.

- The majority—80%—of the 611 employment-related lawsuits were filed by former employees, while 14% were filed by current employees and 3% were brought by unsuccessful candidates for employment. The remainder of the respondents did not specify who brought the lawsuits.

- Approximately 35% of the suits were resolved by reaching a settlement or private agreement, while 12% went to trial and 9% were dismissed. Twenty-five percent are still pending, according to the survey. The remainder did not specify how the cases were resolved.

- Only 21% of employers said they use alternative dispute resolution techniques to resolve such claims. Of that 21%, ADR is used for some

claims at 11% of the respondents' companies, while only 4% said they always use ADR. The remainder did not specify.

In some cases, ADR is mandated as part of employment agreements signed by employees when they begin work, respondents said. Twenty-nine percent of human resource managers said their organizations require employees to sign employment agreements as a condition of employment. Of those, 14% have mandatory ADR clauses.

The survey was based on 616 responses from the 4,900 randomly selected SHRM members who were mailed the survey in March.

Copies of the survey are available for \$70 for non-members and \$50 for members of the Society for Human Resource Management 606 N. Washington St., Alexandria, Va. 22314; 703-548-3440; fax: 703-836-0367.



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Dock worker wins ruling

WASHINGTON—Permanently disabled longshoremen can continue to receive nominal disability payments even if they accept jobs that pay them considerably more than they earned before their injuries, according to the U.S. Supreme Court.

In a 6-to-3 decision last month in *Metropolitan Stevedore Co. vs. Rambo, et al.*, the high court held "that a worker is entitled to nominal compensation when his work-related injury has not diminished his present wage-earning capacity under current circumstances, but there is a significant potential that the injury will cause diminished capacity under future conditions."

In the opinion written by Justice David Souter, the majority added that "it is likely Congress" intended the Longshore and Harbor Workers Compensation Act—which governs workers compensation for dock workers—to "include the injury-related potential for future wage loss" as a covered disability.

The case arose when John Rambo, a Huntington Beach, Calif., longshoreman, suffered a permanent partial disability after injuring his back and leg. He later got a job as a crane operator, earning wages about three times higher than he'd made as a dock worker. His former employer—Metropolitan Stevedore Co.—sought to modify his disability award because of his increased earnings.

—By Mark A. Hofmann

BI listing of property/casualty information resources

PROPERTY/CASUALTY

■ The actuarial, ratemaking, financial and operational capabilities of a **loss-analysis system** is described in a brochure from Coopers & Lybrand L.L.P. Request item 3202.

■ A 1996 guide to the **1986 Risk Retention Act** is available from the Risk Retention Reporter. Request item 3203.

■ An article available from Cozen & O'Connor analyzes subrogation defense based on the **doctrine of superior equities** in a recent California ruling. Request item 3204.

■ The benefits of **forming a cap-**

itive insurance company are reviewed in an information packet supplied by Meadowbrook Insurance Group. Request item 3205.

■ Northern States Management Inc. provides a summary of the procedures necessary for **setting up a Vermont-based captive insurance company**. Request item 3206.

■ A program information kit covering **miscellaneous professional liability risks** is available from Greenwich Insurance Co. Request item 3207.

■ Cozen & O'Connor presents an article that addresses problem areas for **non-profit directors and officers** under liability laws. Request item 3208.

request item 3208.

■ The **American Assn. of Insurance Services' programs and services**, including a cost-assessment worksheet, are outlined in a catalog. Request item 3209.

■ Cozen & O'Connor supplies an article about the impact of professional licensure requirements upon a **fire investigator's qualification to testify as an expert**. Request item 3210.

■ The American Institute for Chartered Property Casualty Underwriters and the Insurance Institute of America present a flier describing a **three-course program in general insurance**. Request item 3211.

■ A **D&O liability insurance guide for non-publicly traded companies** is offered by Great American Insurance. Request item 3212.

■ The legal ramifications of an **improperly trained fire claims handler** are examined in an article from Cozen & O'Connor. Request item 3213.

■ Sedgwick Inc. provides a booklet that analyzes **insurance market trends and developments** in 1997. Request item 3214.

■ A **Chartered Property Casualty Underwriter professional designation program** is summarized in a flier supplied by American Institute for CPCU and the Insur-

ance Institute of America. Request item 3215.

■ A bulletin from NAC Reinsurance Corp. reviews the latest issues affecting the **property and casualty market**. Request item 3216.

■ Recent developments in **litigation pertaining to property and casualty insurance issues** are examined in a newsletter available from Clausen Miller P.C. Request item 3218.

■ A description of all of the **property and casualty insurance courses and programs** that are offered by the American Institute for CPCU and the Insurance Institute of America is provided in a booklet. Request item 3219.

■ Greenwich Insurance Co. offers a program information kit for **long-haul trucking insurance**. Request item 3220.

■ International Risk Management Institute Inc. presents a flier that describes a **professional liability insurance reference book**. Request item 3221.

■ A paper from S.H. Smith & Co. Inc. details the responsibilities of board members of **non-profit organizations** and the insurance policies available to them. Request item 3222.

■ A flier available from the American Institute for CPCU and the Insurance Institute of America describes the institutes' five-course educational program leading to the **Associate in Fidelity and Surety Bonding** designation. Request item 3223.

■ A summary of recent cases addressing **claims under fidelity and financial institution bonds and crime coverage** is available from Clausen Miller P.C. Request item 3224.

Continued on next page

working to bring injured workers to higher levels of recovery. That actually defines outcomes and guarantees medical cost. A company, and a way, that puts the lives of everyone touched by catastrophic injury back together.



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The Property/Casualty and Health Care Information Resource sections comprise current informational and educational materials on topics of interest to corporate risk management, employee benefits and financial executives.

The listings are published as an editorial service by *Business Insurance*; there is no charge to list materials in these sections.

All of the materials may be obtained free of charge by *Business Insurance* readers.

To receive any of the free materials listed in either special section, please write the key numbers of the desired items on the reader service coupons that are printed within each section.

Please fill out the remainder of the coupon and mail it to: *Business Insurance* Reader Service Center, 650 S. Clark St., Sixth Floor, Chicago, Ill. 60605-1702.

All requests must be received before **Sept. 1, 1997**, to be processed.

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 C Union H Ins/Reins Co M Health Care
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Continued from previous page

■ Coopers & Lybrand L.L.P. presents a brochure that describes **actuarial, risk management and claims consulting services** for international clients. Request item 3225.

■ Cozen & O'Connor offers an analysis of Washington state's **new claim regulations for environmental claims**. Request item 3226.

■ An educational program leading to the **Associate in Loss Control Management** designation is described in a flier supplied by the American Institute for Chartered Property Casualty Underwriters and the Insurance Institute of America. Request item 3227.

■ The American Institute for

CPCU and the Insurance Institute of America supply a flier outlining a six-course program leading to the **Associate in Marine Insurance Management** designation. Request item 3228.

■ NAC Reinsurance Corp. presents a book describing the clauses found in **reinsurance contracts** and the regulations affecting them. Request item 3229.

■ The Chicago Board of Trade supplies a newsletter updating readers on the market for the CBOT's **catastrophe options**. Request item 3230.

■ A flier from the American Institute for CPCU and the Insurance Institute of America outlines the institutes' four-course program leading to the **Associate in Reinsurance** designation. Request item 3231.

■ A glossary of **selected reinsurance terms** is available from reinsurance intermediary Gill & Roeser Inc. Request item 3232.

■ An article from the SIGMA Actuarial Consulting Group Inc provides details on the **impact of investment earnings on cash flow and reserve funds**. Request item 3233.

■ A monthly newsletter from NAC Reinsurance Corp. reviews **major developments affecting the reinsurance industry**. Request item 3235.

■ The Chicago Board of Trade provides a guide to the CBOT's **catastrophe insurance options** and hedging applications for both insurance companies and reinsurance companies. Request item 3236.

■ BNA Books presents an **explanation of federal sexual harassment law** and suggests how to handle such situations. Request item 3238.

■ **Cost-effective communication during the litigation process** is outlined in a flier presented by the ICALM Group. Request item 3239.

■ Stone & Webster Management Consultants Inc. provides an article that addresses the use of **claims audits in conjunction with large construction projects**. Request item 3240.

■ International Risk Management Institute Inc. offers a flier that outlines a glossary of more than 1,400 **insurance and risk management terms**. Request item 3241.

■ An article from SIGMA Actuarial Consulting Group Inc. gives a general discussion on the **theory and uses of loss triangles**. Request item 3242.

■ **Successful client/counsel relationships** are described in a flier offered by the ICALM Group. Request item 3243.

■ The Insurance Institute of America presents a flier describing a four-course program leading to the **Associate in Personal Insurance** designation. Request item 3244.

■ Two newsletters from Aon Risk Services Cos. Inc. cover topics such as **loss prevention and disaster planning**. Request item 3245.

■ The ICALM Group supplies a



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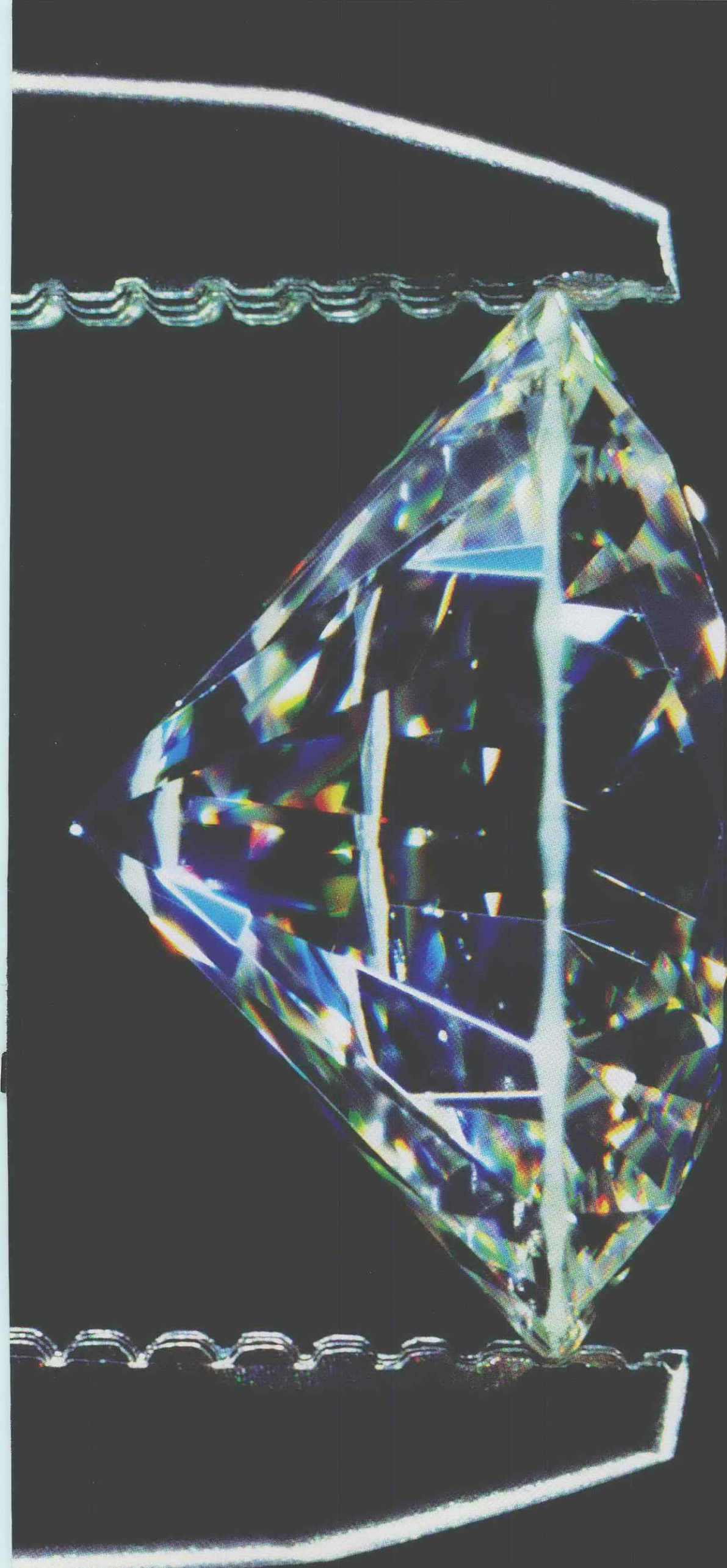
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C <input type="checkbox"/> Union	H <input type="checkbox"/> Ins/Reins Co	M <input type="checkbox"/> Health Care
D <input type="checkbox"/> Government	I <input type="checkbox"/> Actry/Conslt	Inst
E <input type="checkbox"/> Educational Inst	J <input type="checkbox"/> Attorney	N <input type="checkbox"/> Other
- Number of employees:

1 <input type="checkbox"/> 150 or fewer	3 <input type="checkbox"/> 500-999	5 <input type="checkbox"/> 5,000 or more
2 <input type="checkbox"/> 151-499	4 <input type="checkbox"/> 1,000-4,999	6 <input type="checkbox"/> Unknown
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are facing American corporations. Request item 3260.

Information on casualty claims consulting services for self-insured entities is available from Coopers & Lybrand L.L.P. Request item 3262.

A claims and litigation questionnaire is offered by the ICALM Group. Request item 3263.

An article available from Cozen & O'Connor provides detailed information on how subrogation counsel and recovery specialists can pre-emptively take action to preserve subrogation claims. Request item 3264.

A flier from International Risk Management Institute Inc. describes a reference book about contractual risk transfer. Request item 3265.

A disk from Structured Financial Associates Inc. outlines the definition and technical functions of structured settlements used in individual claims. Request item 3266.

American Re-Insurance Co. presents a book with court case citations giving insight into a particular jurisdiction's proclivities when interpreting coverage issues in environmental cases. Request item 3267.

Structured Financial Associates Inc. supplies a disk that describes the functions of structured financial claims settlements. Request item 3268.

An ad hoc reporting tool designed to simplify the process of creating reports from claims and risk data is outlined in a brochure available

Continued on next page

Continued from page 25
 flier that outlines criteria for more understandable legal bills. Request item 3246.

A list of questions to ask when considering claim audits is presented by the ICALM Group. Request item 3247.

The American Institute for Chartered Property Casualty Underwriters and the Insurance Institute of America provide a flier describing a three-course program leading to the Associate in Risk Management designation. Request item 3248.

Operational and contingency planning, litigation coordination and legal expense audits are highlighted in a guide from the ICALM Group. Request item 3251.

SIGMA Actuarial Consulting Group Inc. supplies a flier with property/casualty insurance industry Internet addresses for the insurance professional. Request item 3252.

The ICALM Group presents a paper that provides details about a comprehensive litigation methodology program. Request item 3253.

The advent of innovative risk management and risk financing solutions are reviewed in a newsletter available from Marsh & McLennan Cos. Inc. Request item 3254.

A checklist for hotel disaster response measures is available from the ICALM Group. Request item 3255.

SIGMA Actuarial Consulting Group Inc. offers a flier that describes a new service whose members can receive complimentary educational material designed to help the property/casualty insurance professional. Request item 3257.

A newsletter that is available from PENCO addresses various issues relating to the insurance industry, including such topics as risk management and actual claims occurrences. Request item 3258.

The characteristics of an effective claim presentation are explained in detail in a claim preparation manual offered by Dempsey, Myers & Co. Request item 3259.

Coopers & Lybrand L.L.P. provides a brochure that addresses the environmental challenges that

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 Latin American & Caribbean Division, Coral Gables, Florida
 Property & Casualty Treaty Division, Florham Park, New Jersey

Continued from previous page

from Corporate Systems. Request item 3269.

■ DORN Technology Group Inc. offers an article detailing the effort to establish an **industry-wide claims data standard** designed to facilitate claims processing via client-server computer systems. Request item 3270.

■ A brochure available from Corporate Systems describes the process of **reconstructing and converting risk data** from various sources as the foundation of an effective risk management database. Request item 3271.

■ A newsletter from Marsh & McLennan Cos. Inc. contains articles and examples to help readers use information systems for their **risk management processes**. Request

item 3272.

■ An overview of **classroom, correspondence, video and multimedia courses** offered by Crawford & Co. is available in a booklet. Request item 3273.

■ Corporate Systems presents a brochure that explains the benefits of a **risk management and claims administration system**. Request item 3274.

■ A user's guide and a disk containing **loss forecasting and reserving software** is available from SIGMA Actuarial Consulting Group Inc. Request item 3275.

■ A paper that is supplied by Cozen & O'Connor discusses the origin and the development of **National Fire Protection Assn. Standard 921**, a guide for fire and explosion investigations developed by the NFPA. Re-

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D <input type="checkbox"/> Government	I <input type="checkbox"/> Actry/Const	N <input type="checkbox"/> Other
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quest item 3276.

■ Meeting the requirements of **Government Accounting Standards Board's Standard 10** is the subject of a report from the SIGMA Actuarial Consulting Group Inc. Request item 3277.

■ A single-source electronic data interchange solution for comprehensive **risk data intake and regulatory compliance reporting** is described in a brochure that is available from Corporate Systems. Request item 3278.

■ Coopers & Lybrand L.L.P. supplies an information packet listing descriptions of the company's **risk management consulting services for self-insured entities**. Request item 3279.

■ The Insurance Institute of America presents a flier describing a four-course educational program leading to the **Associate in Surplus Lines Insurance** designation. Request item 3280.

■ An information packet available from Berkley Risk Services/States Self-Insurers Risk Retention Group Inc. contains material about a risk retention group structured to provide **excess liability coverage on a broad-form basis**. Request item 3281.

■ O'Brien & Hennessy provides information including a monthly **short discussion of subrogation issues**. Request item 3282.

■ **Volunteer Defense to Subrogation Action** is a report presented by Cozen & O'Connor that examines a recent decision issued by the California Court of Appeals. Request item 3283.

■ A list of what to look for and what to ask when **reviewing legal bills** is presented by the ICALM Group. Request item 3284.

■ A **risk management guide for loss prevention** that is directed to entrepreneurs as well as corporate managers is available from the Chubb Group of Insurance Cos. Request item 3285.

■ Aon Risk Services supplies a bulletin with information on **international insurance, risk management and regulatory issues**. Request item 3286.

■ **Claims specification software** that was created in order to help risk managers unify a database of claims is available from DORN Claims Specification. Request item 3287.

Continued on next page

2516

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Secretary



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And if your reinsurer doesn't have you covered, you may be down for

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CAPITAL YOU CAN BANK ON.

Continued from previous page

BI health care information resources

HEALTH CARE

■ A brochure available from The American College offers information on **professional education programs**, including those leading to the Chartered Life Underwriter and Chartered Financial Consultant designations. Request item 3288.

■ The main types of **captive insurance companies** and the **advantages and disadvantages** of each form of captive are outlined in a primer supplied by Northern States Management Inc. Request item 3289. **BI**

■ Tax-effective savings opportunities for post-retirement medical expenses are examined in an article by The Kwasha Lipton Group. Request item 3301.

■ The American Institute for Chartered Property Casualty Underwriters and the Insurance Institute of America provide a flier explaining a program leading to the **Associate in Automation Man-**

agement designation. Request item 3302.

■ **Quarterly reports on the events and trends in health care regulation** are offered by NILS Publishing Co. Request item 3303.

■ An article offered by The Kwasha Lipton Group discusses **how a profit-sharing plan can be designed to effectively deliver medical benefits** to future retirees. Request item 3304.

■ The International Foundation of Employee Benefit Plans supplies a newsletter that examines **trends in voluntary benefits.** Request item 3305.

■ The Alexander Consulting Group provides a research brief that analyzes the benefits of **Medicare risk HMOs** for employers sponsoring retiree health care plans. Request item 3306.

■ Clausen Miller P.C. offers a re-

port addressing the **application of ERISA in restricting damages available to plaintiffs alleging medical malpractice** against managed care providers. Request item 3307.

■ A bulletin summarizing the "**Health Care Reform Act**" and discussing **steps employers can take to be in compliance** with this Act is available from The Kwasha Lipton Group. Request item 3308.

■ A booklet prepared by SBPA Systems Inc. describes **group benefit administration systems** for medical, dental and vision claims adjudication. Request item 3309.

■ An article from Self-Insurance Marketing Service describes what it takes for a claims administrator to **successfully reach the self-insurance market.** Request item 3310.

■ The International Foundation of Employee Benefit Plans offers a survey that indicates public opinion about the **fate of Social Security and Medicare.** Request item 3311.

■ A guide to **self-funded benefit programs and services** is available from VISTA Administrators Inc. Request item 3312.

■ **Alternatives to funding employee medical benefits** are explained in a paper from the Kwasha Lipton Group. Request item 3313.

■ Sedgwick Noble Lowndes supplies a survey of health insurance companies and health maintenance organizations that analyzes **health care trends.** Request item 3314.

■ Marketing and sales tips for **targeting the self-insurance market** are contained in an article from Self-Insurance Marketing Service. Request item 3315.

■ VISTA Administrators Inc. provides a brochure for self-insured employers with an overview of **Section 125 plans**, including reasons to adopt a flex plan. Request item 3316.

■ The **legal and tax issues surrounding domestic partner benefits** are detailed in an article from The Kwasha Lipton Group. Request item 3317.

■ An overview of **dependent care benefits** is featured in a brochure from Child & Elder Care Insights Inc. Request item 3318.

■ A survey from the International Foundation of Employee Benefit Plans demonstrates the importance of **quality in health care plans.** Request item 3319.

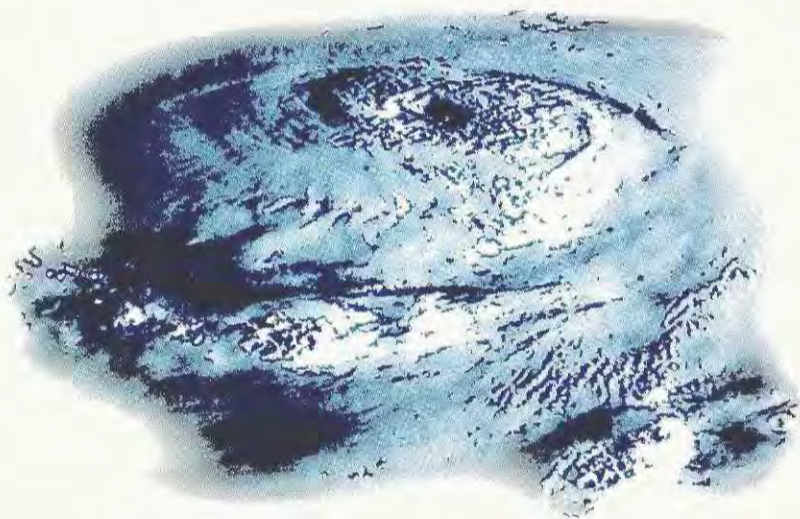
■ A bulletin from The Kwasha Lipton Group outlines **details in the "New York Health Care Reform Act of 1996."** Request item 3320.

■ An **executive medical insurance plan** is described in a brochure from RLI Insurance Co. Request item 3321.

■ Mid-America Coalition on Health Care provides a booklet that describes a cost savings program for **improving pregnancy outcomes for employees.** Request item 3322.

Continued on next page

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winds of change...
even when they hit at 115 mph.



When our clients face catastrophic losses, they need instant, on-site response—regardless of location or conditions. That's why when Fran was still pummeling the

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A man in a dark suit, white shirt, and patterned tie stands in a barbershop. He is leaning on a counter with a red barber chair in the foreground. The background shows a mirror reflecting the shop's interior, including a sink and various products.

Jory Luster, President
Luster Products, Inc.

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Continued from page 30

■ A newsletter with articles of general interest to **health care claims payers** is available from Medco Review Inc. Request item 3323.

■ The Kwasha Lipton Group is offering a flier with information on **how to analyze the long-term care marketplace** efficiently. Request item 3324.

■ An analysis of a "**wrongful living**" case as it relates to risk management considerations is provided by Clausen Miller P.C. Request

item 3325.

■ An article from The International Foundation of Employee Benefit Plans illustrates the **need to restructure benefits** due to the increasing number of contingent workers. Request item 3326.

■ An analysis of **medical savings accounts** as an addition to or replacement for existing health plan options is available from The Kwasha Lipton Group. Request item 3327.

■ The history of **audits conducted by the Internal Revenue Service**

and **Department of Labor** is analyzed in a booklet supplied by The International Foundation of Employee Benefit Plans. Request item 3328.

■ The Frank Gates Service Co. features a newsletter covering **trends in group health services**, workers compensation and unemployment compensation. Request item 3329.

■ Three options for **employer-sponsored fitness programs** are presented in a flier from The Kwasha Lipton Group. Request item 3330.

■ BNA Books presents a fact sheet that summarizes employee benefits available under the **Social Security and Medicare** systems. Request item 3331.

■ StayWell Health Management Systems Inc. supplies a **personal health assessment** to improve employees' health and ensure appropriate use of the health care system. Request item 3332.

■ Guidelines on **how to convert health plan data into useful information** are in a brochure from The Kwasha Lipton Group. Request item 3333.

■ A paper on **medical benefits subrogation** and the financial opportunity it represents for all health-care claim payers is available from Strategic Recovery Partnership Inc. Request item 3334.

■ A newsletter focusing on **health care policy language** and suggestions on drafting good policy language from Strategic Recovery Partnership Inc. Request item 3335.

■ A brochure providing information on **professional education programs**, including those leading to the Registered Health Underwriter and the Registered Employee Benefits designations, is offered by The American College. Request item 3336. **BI**

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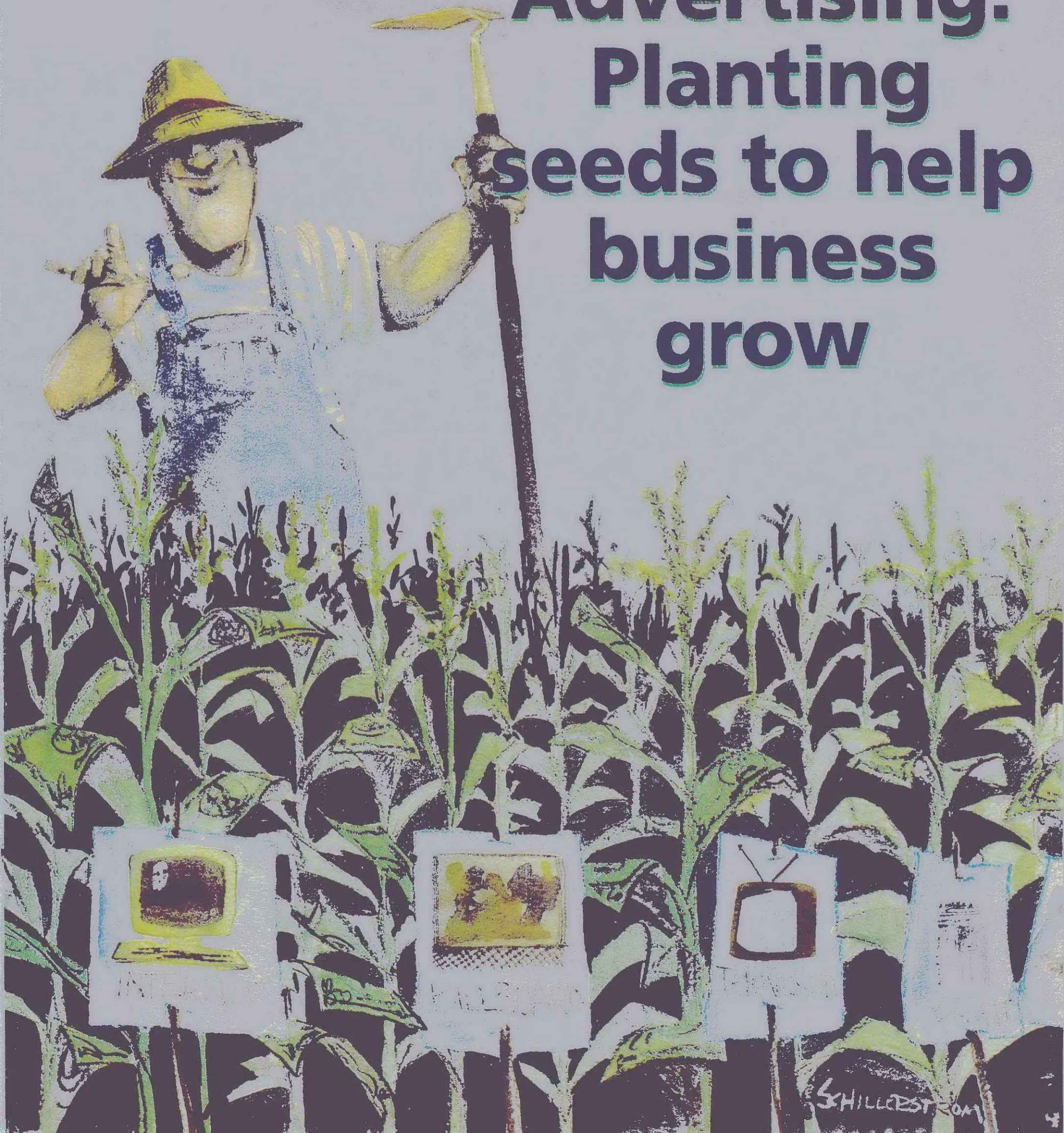
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SCHILLERSTROM

Web advertising good policy, expert says

Brand awareness, direct response principal strategies on the Internet

By MICHAEL PRINCE

Advertising on the Internet works and will become an increasingly important part of insurance company advertising in the future, predicts an expert on Internet marketing.

"The Web is now populated enough for advertising," said Jim Sterne, co-founder of Target Marketing, a Santa Barbara, Calif., company that specializes in mar-

IMCA

keting on the Internet. Mr. Sterne spoke at the Insurance Marketing Communications Assn. annual meeting in Boca Raton last month.

An important aspect for Web advertisers to keep in mind is that people don't want to waste time while using the Internet, he said. While watching television or reading a magazine, people don't mind wasting time, "but I expect the

value for my time in front of the computer to be higher," he said.

Therefore, he recommends that ads on the Internet appear only in places where the viewer will appreciate them. For instance, he cited an ad for laundry detergent that he saw on a Web page for anthropology, hardly the place people are looking for cleaner clothes.

"You want to focus your advertisement on sites where people who want or need your service show up," Mr. Sterne said.

There are two general strategies

for Web advertising, he said:

- Brand awareness. The measure of success for this strategy is if people become familiar with one's name, he said.

- Direct response. Success for this is based on the number of times people enter the advertiser's Web site from the original site where the ad was placed, called click throughs, he explained.

Internet ads are effective for both advertising strategies. Mr. Sterne said a study by HotWired, an online magazine, showed that Inter-

net ads are effective in raising name awareness. "And other studies show that people pay attention to ads," he said. "They see them and click on them."

A number of ways to advertise exist on the Internet. The most common is a banner ad that lies across the top of a Web site like a cyber billboard. One disadvantage with banners, though, is that when the viewer scrolls down the page, the banner scrolls out of view, he said. So, a more sophisticated type of banner was invented that permanently stays on the top of a page, always in view.

Another type of ad is sponsorship. This is when a site is sponsored by one advertiser whose name appears in the logo. An example is a site for children sponsored by General Mills Inc. "This is like General Mills has their own television show," he said.

Interactive ads are even more sophisticated. These ads move, dance or flash with the goal of grabbing a viewer's attention. "Animation means more retention and more click throughs," he said.

Other types of interactive ads contain scrolling text that conveys the advertiser's message. "You don't need to click through," he said. "They tell you the whole story."

The success of interactive ads has led to more advanced varieties. For example, one site gave viewers the choice of paying 18 cents to finish reading an online article, or to see the remainder for free after viewing an ad. Once the ad was displayed, viewers had to type in the name of the sponsor to return to the story. The typing of the name, he said, means people will better remember the advertiser's name.

But the most sophisticated advertising, he said, lies in the ability to specifically target people.

A relatively new way of reaching people is through what is called push technology. Rather than waiting for people to click on one's Internet site, push technology will send the Web page directly to people who have chosen in advance to receive it.

For example, one popular service called PointCast uses push technology to send news regarding topics selected in advance by the viewer, along with ads.

"It's a screen saver," he said. "When your computer is quiet it pops up and takes over your screen," displaying the information requested.

But, Mr. Sterne said that many people have become turned off by it. "It's an interesting idea," he said. "It has some value, but as a mass medium it is not totally there yet."

Mr. Sterne outlined several keys to a successful Internet ad. First, make the ad move. Also, bright colors get people's attention. And putting the words "click here" on the ad creates a 40% higher response in terms of click throughs than without it, he said.

Most importantly, however, is making sure one's product matches the content of the Web page.

See **Advertise** on page 32D

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Advertise

Continued from page 32B

For example, when someone types in search words while using an Internet search engine, that indicates an interest on the part of the user in those topics. So, an ad that fits the user's interest as expressed in the search criteria would be appropriate.

The technology that puts an advertisement in front of interested people is combined with other software that builds profiles of net surfers based on the sites they visit. "This is probably the most interesting thing on the Internet today," he said.

Based on these profiles, marketers can anticipate a surfer's tastes when compared with the tastes of other users with similar profiles, called collaborative filtering. Combining the two technologies puts ads in front of people whose profile says they already are interested in the product.

"They do the collaborative filtering, find people who have similar profiles and see what ads they click on, and provide you with the same ads," he explained.

The result is that the Internet in the future won't just take surfers where they want to go, he said. But it will already "know where they will go," he said, and provide an advertisement to fit their tastes. ■

Expert details how to boost Web impact

By MICHAEL PRINCE

Remember the four "C's" for a successful Web site: cool, content, context and contact.

That was the advice provided by Internet marketing expert Jim Sterne at a workshop discussion on Web sites at the Insurance Marketing Communication Assn.'s annual meeting in Boca Raton, Fla., last month.

Web sites need to be fun, interesting or useful, he said. "Fun is hard," and interesting is harder,

IMCA

Mr. Sterne said. "Useful, however, is something we all can do."

Although few if any insurance transactions are taking place over the Internet, a Web page can be a great way for an insurance company to enhance customer service, he said. "Customer service is great marketing, and the Internet is great for customer service," he said. "This can be a great way for working with agents."

At a minimum, the Web site can

be seen as a 24-hour-a-day, seven-day-a-week brochure for the company. This is frequently better for customers, as they can learn about the company at their own speed and when they want. This also means that if they call the company for information, they already know a lot and may have fewer questions.

But the Web site has to have valuable information or it won't be used, he said.

Several workshop attendees said that within their companies, putting up a Web page was delayed as people debated whether to put up a site with incomplete information or wait until the entire site was completed. Mr. Sterne recommends putting up the site as soon as possible and then adding the new material when it's ready. This will also allow the company to promote its new site, while also creating the impression the site is being continually improved, he said.

Other attendees were concerned about potential technological glitches hurting their company's Web site as well as the company's reputation. Mr. Sterne said that should not stop companies from putting up a site; people expect some glitches on the Internet, as the technology is still relatively new.

"Get out there and make your mistakes now," he said. "Now is a great time to screw up."

He also said even the best-planned sites will need revision. No matter how much the site is planned, no one knows what the response will be until it's up and running. And sometimes what people want differs from what is expected.

"You have to have a purpose for the Web site," he said. "But you need to change the purpose based on the response you get from the people who visit the site."

Measuring the value of the Web site also is important, especially if senior management wants to determine the site's value. What's important to remember, he said, is not only how much money a site brings in but how much it will cost the company to provide the service by another means.

By disseminating information over the Internet, where distribution costs are virtually zero, a company may save a lot of money compared with distributing it another way.

"Every time someone downloads something instead of shipping it, the company saves money," Mr. Sterne said.

But like the proverbial tree that falls in the uninhabited forest, a good Web site doesn't do anything if no one visits it. Mr. Sterne recommends putting the company's Web site address in all advertisements, on business cards and on letterheads. One way of attracting visitors, he added, is to tell people valuable information is available only on the Web site and nowhere else. ■

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Internet marketing hits home for insurance broker

By **BRUCE KELLY**

When 9-month-old Ian Lochtefeld wakes up at 6:30 each morning, it's time for his mother, commercial lines broker Joanne Lochtefeld, to go to work.

After feeding and playing with her son, Ms. Lochtefeld logs on to her computer and responds to e-mail messages directed to her company's home page on the World Wide Web.

Some of the messages are junk mail, but many come from clients requesting information or changes in policies. For example, one morning recently Ms. Lochtefeld responded to a client, a software consulting firm, that had e-mailed her the night before seeking to increase its property insurance limits after buying a new computer. Ms. Lochtefeld was able to get the client a quote and update the consulting firm's policy by the time Ian's nanny arrived at 8:30 a.m.

Ms. Lochtefeld, 35, who has two part-time employees, started San Francisco-based Cymru Insurance Services in 1994 and launched its Web site that same year. She is proud of the speed and accuracy with which the brokerage responds to her clients via the Internet, many of which operate high-tech businesses in downtown San Francisco.

"By 8:30," she said, "I've already responded to eight to 10 people."

"It's more effective than the Yellow Pages," she said of marketing her services on the Web. And by exchanging information online, Ms. Lochtefeld doesn't have to stay on the phone with each client for 45 minutes.

Will more brokers do business as Ms. Lochtefeld does in the future? More will have to in order to survive, according to new research.

Agents and brokers will face new competitors as insurers increasingly use the Internet to sell policies directly to customers, a recent report predicts.

The report, "Global Insurance to the 21st Century," forecasts dramatic changes for the insurance industry. The study, which focused on personal lines, was jointly prepared by The Economist and International Business Machines Corp.

"Consumers want to comparison shop," said Alice Morrison, a principal of IBM's Consulting Group in White Plains, N.Y. Insurance agents used to make those comparisons for customers; now, with Web site operators such as InsWeb—www.insweb.com—aiming "to be a one-stop shopping mall for insurance information and transactions," the traditional role of agents and brokers is changing, she said.

The changes in the insurance industry wrought by new technology are similar to those in financial services in general, said Paula Sinclair, author of the report and a senior editor at The Economist Intelli-

gence Unit.

"People want to go as directly as possible to providers," Ms. Sinclair said.

The report predicts a shrinking role for agents and brokers in the personal lines market over the next five years. Based on surveys with 160 insurance executives and 40 personal interviews, the report predicted that insurance companies increasingly will use the Internet to assess policyholders' needs and sell policies.

If used properly, however, the Internet also has the potential to in-

crease the amount of business that brokers and agents produce, said Randall Cole, vp-North America Consulting Services Insurance Industry for IBM in White Plains.

"They'll have more current information than they do today," he said. "Technology will help them understand their clients' needs in detail and provide customized solutions."

Ms. Lochtefeld credits the Internet with increasing business for her brokerage.

Cymru Insurance Services' Web site—www.ezone.com/bis/—debut-

ed in October 1994, and Cymru has seen new business generated by the Web rise each year. In its first year, "Cymru had a 5% increase" in new business from its Web site, Ms. Lochtefeld said.

Although she didn't set out to target high-tech clients, it turned out they were most comfortable with doing business on the Internet.

As Ms. Lochtefeld established a niche with San Francisco's high-tech companies, Cymru's business grew. In 1996, 16% of new business came from the Web, and she predicts that percentage will rise to

20% this year, with Cymru's annual gross revenues reaching \$125,000 and \$150,000. Most of her policies have premiums ranging from \$500 to \$3,000, she said. Her Web site's home page looks like a simple brochure and fills the computer screen. Beneath a photo of a clock, it states her name, phone number and e-mail address. It lists coverages she places—commercial general liability, property, automobile, workers compensation and miscellaneous professional liability—in bold. Brief explanations regarding

Continued on next page



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Continued from previous page
available coverage terms and limits follow.

Although doing business in cyberspace can be easy, it does have limitations.

For example, Ms. Lochtefeld, who is licensed in California and five other states, said she also receives inquiries from businesses in states where she cannot sell insurance. When that happens, Ms. Lochtefeld refers the inquiries to her insurers.

The Internet also played a role in naming her company. In 1994, Ms. Lochtefeld wanted to register a name reflecting the nature of her business but discovered that the phrase "commercial insurance"

had been used thousands of times in Internet titles. Looking for another approach, the native of Wales named her business Cymru, which means "whale" in Welsh.

As Ms. Lochtefeld's clients expand, she is confident Cymru will grow with them. One of her software consultant clients, for example, recently saw annual sales grow to \$4.5 million from \$50,000, she said. "Now the bigger firms are calling."

Copies of the report, "Global Insurance to the 21st Century," are available for \$575 by contacting Kristen Agrati at The Economist Intelligence Unit, 212-554-0600; e-mail: kea@engny.mhs.compuserve.com.

Zurich unit takes SAMMY award

117 award winners chosen from pool of record 425 entries

By MICHAEL PRINCE

Maryland Insurance Group walked away with highest honors at the 1997 Insurance Marketing Communications Assn. Showcase Awards.

Maryland Insurance Group, a unit of Zurich Insurance Co., won the SAMMY, or Special Award from Members, for its marketing directed to commercial lines producers. Voting

for the SAMMY award took place during the first three days of the IMCA's annual meeting in Boca Raton, Fla., by the association members in attendance.

The SAMMY is given annually to the Showcase Award entry that makes the greatest contribution in raising the level of insurance marketing communications. In all, 117 entries received awards in 25 categories. The winners were chosen from a record 425 entries.

The awards and their winners are:

- Marketing/Sales Promotion Di-

rected to Personal Lines Producers: Best of Show to Fireman's Fund Insurance Co.; Awards of Excellence to Farmers Group Inc., Metropolitan Property & Casualty Insurance Co., Prudential Property & Casualty In-



surance Co. and SAFECO Corp.

- Marketing/Sales Promotion Directed to Personal Lines Consumers: Best of Show to Liberty Mutual Insurance Co.; Awards of Excellence to American National Property & Casualty Co., Chubb Corp., Farmers Group, Hanover Insurance Co., Harleysville Insurance Cos., Prudential Property & Casualty and SAFECO.

- Marketing/Sales Promotion Directed to Commercial Lines Producers: Best of Show to Maryland Insurance Group; Awards of Excellence to Chubb, ECS Inc., K&K Insurance Group, Markel Insurance Co., Maryland Insurance Group for a second entry, Royal Insurance Co., Swett & Crawford Group, Westfield Cos., Zurich-American Insurance Co.

- Marketing/Sales Promotion Directed to Commercial Lines Business Consumers: Best of Show to ITT Hartford Group Inc.; Awards of Excellence to Commonwealth Risk Services Inc., Markel Insurance, Royal Insurance, Swett & Crawford and Zurich-American.

- Print Product Advertising Directed to Personal Lines Consumers: Best of Show to Universal Underwriters Insurance Co.; Awards of Excellence to Liberty Mutual and The Personal Insurance Co. of Canada.

- Print Product Advertising for Commercial Lines Directed to Business Consumers: Best of Show to Harleysville Mutual Insurance Co.; Awards of Excellence to Liberty Mutual, Markel, National Chiropractic Mutual Insurance Co., Utica National Insurance Group, Wausau Insurance Cos.

- Print Product Advertising for Personal and Commercial Lines Directed to Producers: Best of Show to ECS; Awards of Excellence to Reliance National Insurance Co. and Royal Insurance.

- Print Corporate Advertising Directed to Producers and Consumers: Best of Show to Liberty Mutual; Awards of Excellence to General Reinsurance Corp., National Chiropractic Mutual, The St. Paul Cos. Inc., Swett & Crawford, Swiss Reinsurance America Corp. and Universal Underwriters.

- Radio Advertising: Best of Show to Farmers Insurance Group; Awards of Excellence to Country Cos. and Nationwide Mutual Insurance Co.

- Television Advertising: Best of Show to Nationwide; Awards of Excellence to Co-operators General Insurance Co., ITT Hartford Group and Workers Compensation Fund of Utah.

- Other Audio/Visual Communi-

See Awards on page 32H

require strong variable life products.

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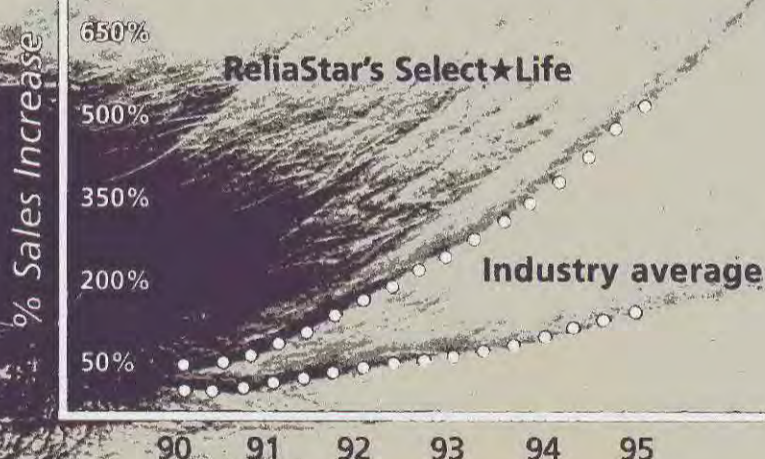


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Agent/Broker Topics

Awards

Continued from previous page

• Best of Show to X.L. Insurance Co. Ltd.; Awards of Excellence to Chubb, Commonwealth Risk Services and Maryland Insurance Group.

• Campaign: Best of Show to Liberty Mutual; Awards of Excellence to IIT Hartford Group, Liberty Mutual for a second entry, Missouri Employers Mutual Insurance Co., Royal Insurance, Scottsdale Insurance Co., Swiss Re America, Wausau Insurance and the Workers Compensation Fund of Utah.

• Public Relations: Best of Show

to The Co-Operators; Awards of Excellence to The Co-Operators for a second entry, Chubb, General Re, Maryland Insurance Group and Metropolitan Property & Casualty.

• Company News Publications for Employees: Best of Show to Harleysville Mutual; Awards of Excellence to Liberty Mutual, IIT Hartford Group and Swett & Crawford.

• Other Employee Communications: Best of Show to Hanover Insurance; Awards of Excellence to Swett & Crawford and Zurich-American.

• Annual Reports: Best of Show to Arkwright Mutual Insurance Co.; Awards of Excellence to Liber-

ty Mutual, St. Paul and ZC Resource Ltd.

• Convention Support Materials: Best of Show to Zurich-American; Awards of Excellence to Arkwright Mutual, Commonwealth Risk Services and Liberty Mutual.

• Producer Publications: Best of Show to SAFECO; Awards of Excellence to General Accident Insurance Co., Harleysville, Royal Insurance Co. of Canada, Utica National.

• Communications \$1,000 and Under: Best of Show to Utica National; Awards of Excellence to GRE Insurance Group, K&K Insurance Group, The Personal Insurance Co. of Canada, Royal Insurance.

• Potpourri: Best of Show to Chubb; Awards of Excellence to CIBC General Insurance Co. Ltd., Liberty Mutual, Metropolitan Property & Casualty, Nationwide and State Farm Group.

• Marketing on the Internet/Internet Home Sites: Best of Show to The Co-Operators of Canada; Awards of Excellence to CIBC General Insurance, Liberty Mutual, Prudential Property & Casualty and SAFECO.

• Associate Members' Media Kits Directed to Advertisers: Best of Show to Risk Management magazine; Award of Excellence to Insurance Journal of Texas.

• Associate Members' Direct Mail Packages Directed to Advertisers:

Best of Show to *Business Insurance*.

• Associate Members' Print Advertising Directed to Advertisers: Best of Show to Insurance Journal West; Award of Excellence to Insurance Journal of Texas.

• Associate Members' Potpourri: Best of Show to Independent Insurance Agents of America; Award of Excellence to Insurance Institute of Canada.

At the annual meeting, IMCA also presented its Golden Torch Award to Edwin S. Overman, retired president of the American Institute of Chartered Property Casualty Underwriters. The award is presented annually to recognize someone who has helped light the way for others. **BI**

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Enhancing ad agency relationship

By MICHAEL PRINCE

A good relationship with an insurer's advertising agency is not born, but made. To make and enhance that relationship, an insurance company can take certain steps, said a panel of advertising executives who spoke at

IMCA

the Insurance Marketing Communications Assn.'s annual meeting in Boca Raton, Fla., last month.

David Egan, executive vp-director of account management at Ketchum Advertising in Pittsburgh, presented a list of items for companies in the insurance industry to keep in mind in dealing with an agency:

- Choose an agency and not a campaign. "You are selecting a group of people, how they think and not an ad," he said.

- If the relationship is not working out, look to change the people in the agency and not the agency.

- Don't approve of advertising you don't like. "If you hate the advertising, say so," he said.

- Insist the agency be proud of its work. Only if they have pride in the final product will agency employees produce their best efforts.

- Be actively involved. "You don't want to just send the agency off on their own," as they don't know the business as well as an insurance company.

- Make expectations clear.

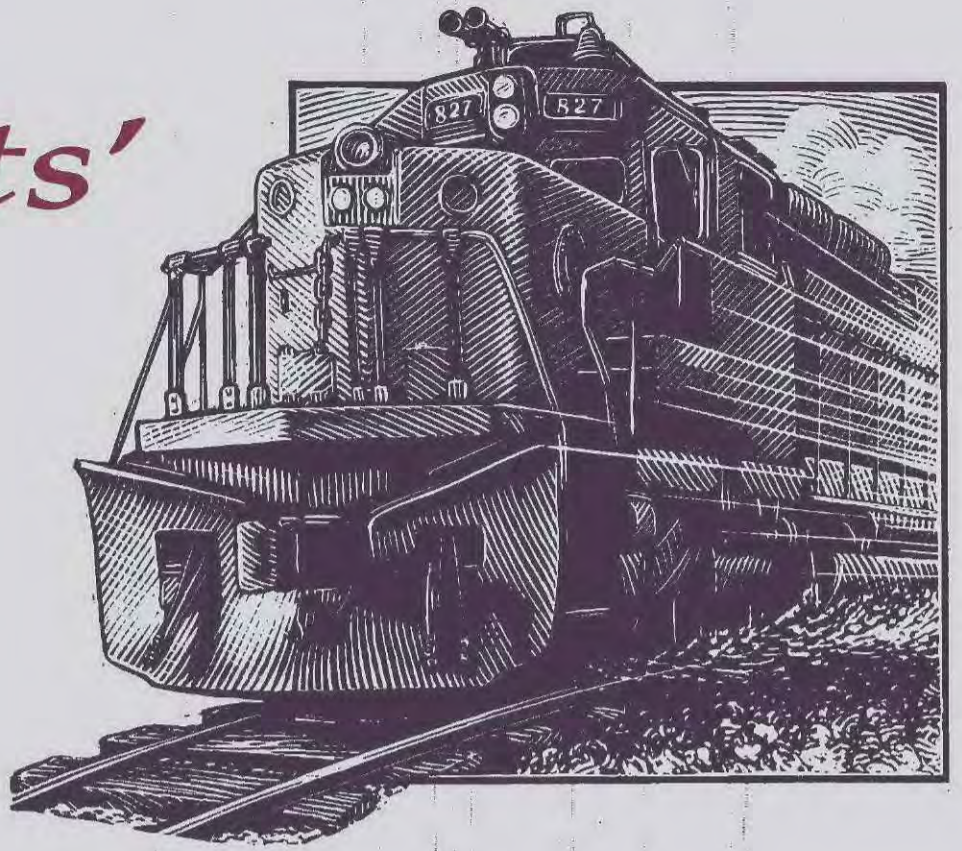
- Review the relationship regularly. Not only perform a formal yearly review, but have frequent informal ones.

- And smile. The time with your agency should be fun, Mr. Egan said.

William Spinner, president of Ideawrights, a Mechanicsburg, Pa.-based marketing communications firm, commented on several of those tips.

See *Agencies* on page 32J

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AG-123881-C 6/97

Agencies

Continued from previous page

Getting involved with the agency must be done with a minimal number of layers of people who can approve the ads, he said.

Mr. Spinner also advised companies to put the terms of the relationship in writing when the ad agency is hired.

"If you set out the nuts and bolts early, it will allow you to focus on the creative later on," he said.

Remember, added Mr. Spinner,

the client is in control of the process and should take the lead and not put all responsibility on the agency.

Dick Calderhead, president of New York-based Calderhead & Phin Ltd., also participated in the panel, which was moderated by Ken Lamm, senior vp-management supervisor at Cramer-Kraselt Advertising in Milwaukee.

Next year's IMCA annual meeting will be held in Vancouver, British Columbia, from June 27 to July 1. For more information, contact William Hadley, Executive Director, Insurance Marketing Communications Assn., 602-443-8860. **BI**

Alternative market options now in reach of smaller agents

By John Kessock

THE TABLES APPEAR to be turning in the alternative market. After years of tug-of-war between large brokerage firms and independent agents in the small-to-middle commercial market, recent mergers and acquisitions may be opening the doors for independent agents to regain market share.

A/BT Perspective

The acquisition of Alexander & Alexander Services Inc. by Aon Group Inc. and the mega-merger of Johnson & Higgins and Marsh & McLennan Cos. Inc. should create consolidations that will either indefinitely delay their middle-market penetration or shift their resources more to the global marketplace. The result could be layoffs for those producers serving the middle-market accounts and change the emphasis of large brokers back to providing risk management services to larger accounts.

As a result, independent agents will have opportunities to again prosper in the small-to-middle commercial market.

When the soft market in the property/casualty industry started nine years ago, large brokerage firms began to seek revenue in new markets to offset losses in their large account divisions, which were decimated by competition and rate cuts. Independent agents then found their small-to-middle market accounts had become fair game for these large brokerage firms.

As large brokers began to cut away at the independent agent's book of business, the alternative market responded with many new products targeted at smaller policyholders and at the broker's need to improve revenues. The independent agent faced two options: Seek assistance to participate in this new market or lose market share.

Today, these mergers and acquisitions have put the

independent agent in a unique position to regain market share. Indeed, the rules of competition have changed, and those who acquire quality producers (perhaps those lost as a result of these mergers) will be best positioned to rapidly advance into the alternative market.

To survive in tomorrow's insurance marketplace, many successful independent agents will form agency captives as sources of long-term revenue for their preferred business. In some situations where they have established their own agency captives, agents have increased their revenue from a 5% commission on workers compensation business to more than 50% of the premium. Agency captives also can be used to write multiline programs.

The agency captive has applications for both small and middle-market accounts. For example, Commonwealth Risk has found that national brokers would not establish agency captives because of their concern for conflict of interest. Their clients also usually were larger and, in many instances, assumed their own risk. The policyholder would reap the benefits of good loss experience.

We see increasing interest from small buyers looking for alternative market entry points. For example, we structure workers compensation policies for companies with annual premiums starting at \$1,000 up to a maximum of \$10,000. This is a radical change from the years before when such programs were limited to larger accounts.

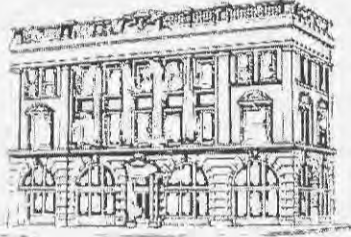
Another new concept is a small account "warehouse" facility, which would accept preferred risks ranging in premiums from \$25,000 to \$250,000. At a given threshold of combined premiums, the book may become eligible for spinning off into its own agency captive.

We expect the dividing line between agents and brokers to once again become clearer. The extended soft market created a blurring of marketing strategies and forced the entire industry to reinvent itself. Acquisition activity is expected to remain strong, but the average size of accounts will, in part, determine which agencies are targeted for acquisition. Some small-account books of business may be offered for sale as well.

Overall, industry acquisition activity has created new opportunities within the alternative market. Size is no longer a prerequisite for entry into the alternative market but instead determines which product might respond to a client's needs. **BI**

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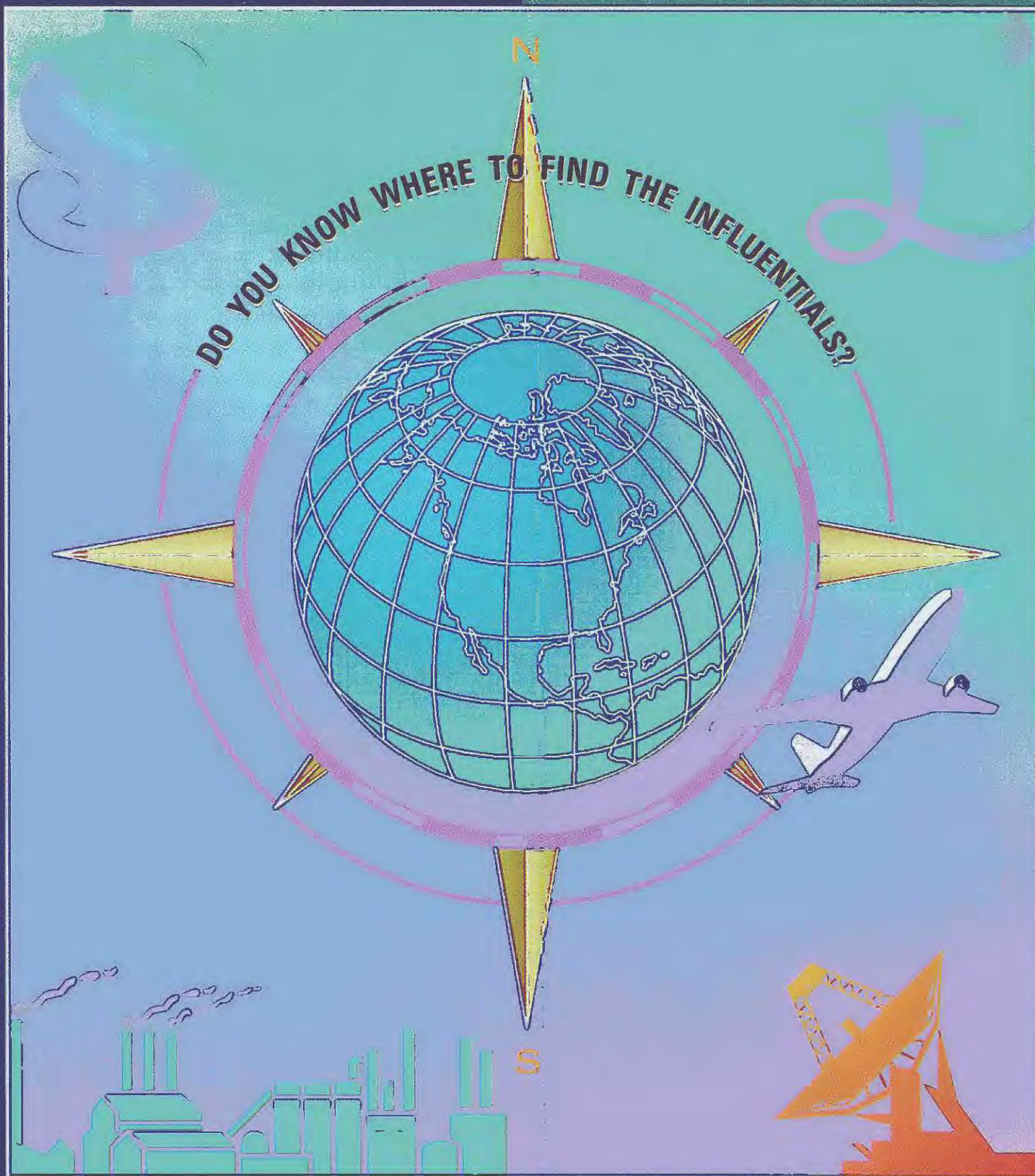
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John Kessock Jr. is chairman of Philadelphia-based Commonwealth Risk Management Services Inc.



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Underwriter's intranet wins award

Software firm helps Shand Morahan put underwriting guidelines online

By REGIS COCCIA

Intranets are becoming popular tools for disseminating information within a company, and one company has attracted attention as a model of efficiency.

Shand Morahan & Co., an Evanston, Ill.-based underwriting management unit of Markel Corp., recently implemented an internal network project that Microsoft Solution Providers named one of five finalists this year for its Best Intranet Solution award.

Developed by Zeal Inc., a software company in Northbrook, Ill., the intranet enabled Shand Morahan's underwriting department to dramatically increase its productivity, said Tony Pierce, vp-management information systems at Shand Morahan.

Before creating the intranet, Shand Morahan's underwriters were divided into camps by product line. The company writes 12 lines, including directors and officers liability and various errors and omissions cover-

ages. Surplus lines brokers often had to deal with different people for each type of product, Mr. Pierce explained.

In addition, underwriters lacked easy access to rating and policy guidelines, which were kept in three-ring binders and not uniformly organized. When a question arose, finding the answer could require tracking down a variety of people, he said.

Shand Morahan changed all that by updating the underwriting guidelines and putting them online.

"Now there's one point of contact. We've changed our way of business from product line-oriented to customer-oriented," Mr. Pierce said. "Producers love it. They have one contact, they're building a relationship with that person, and they don't have to remember who to deal with at Shand."

Following flat premium growth over the past three or four years, Shand Morahan formed a strategic planning committee to find ways to increase

the company's efficiency, he said.

Among the goals were building relationships between producers and underwriters and establishing a system under which one person could "automatically know the status of everything," Mr. Pierce said.

"That was the business problem we were trying to solve. We also wanted to improve workflow," he said. Greater access to underwriting guidelines was needed, and the committee wondered, "Is there some way to get this online?" he said.

Shand Morahan hired Zeal to explore the options, and the software company recommended an intranet.

Intranets are in essence the Internet in miniature. They run on the same kind of equipment as the Internet, utilizing a network server and browser software. A company with Internet access already has the tools needed to establish an intranet.

"Some business was slipping through the cracks" at the Shand

Morahan, said Steven Zeal, the software company's president. "There was very dispersed information, no central knowledge base."

Mitch Greenwald, technical director at Zeal, said, "There's a lot of practicality in sharing information in an electronic environment." By providing access to pricing information, for example, Shand Morahan can improve its customer service, he said.

Zeal Inc. spent six weeks implementing the project, Mr. Zeal said. The initial phase involved putting one Shand Morahan product on the Web server and gathering feedback from the underwriters every few days.

"The hardest part was getting all the information from the different binders," he said. "We scanned in documents with OCR (optical character recognition) and converted online documents to HTML," or hypertext markup language, the programming language used to communicate on the Internet's World Wide Web.

Shand Morahan's underwriters now "can look up rules and regulations of different states very easily," Mr. Greenwald said. The system gives the company's employees "random access and sequential access" to pages of information on the intranet, he explained.

The project was so successful that Shand Morahan's parent company, Markel, of Glen Allen, Va., asked Zeal to create a similar system, Mr. Zeal said.

Besides the underwriting guidelines, Shand Morahan also put guidelines on claims, benefits and employee travel on the intranet. There even is an online help desk that employees can visit to solve simple computer problems.

"Anything documentation-oriented, we've started filling the intranet with," Mr. Pierce said. The number of uses for the intranet "just exploded. We've just created pages and published them."

One area Shand Morahan is looking at now is bringing its brokers online and providing password-protected access to its intranet, Mr. Pierce said. **BI**

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Agent/Broker Topics

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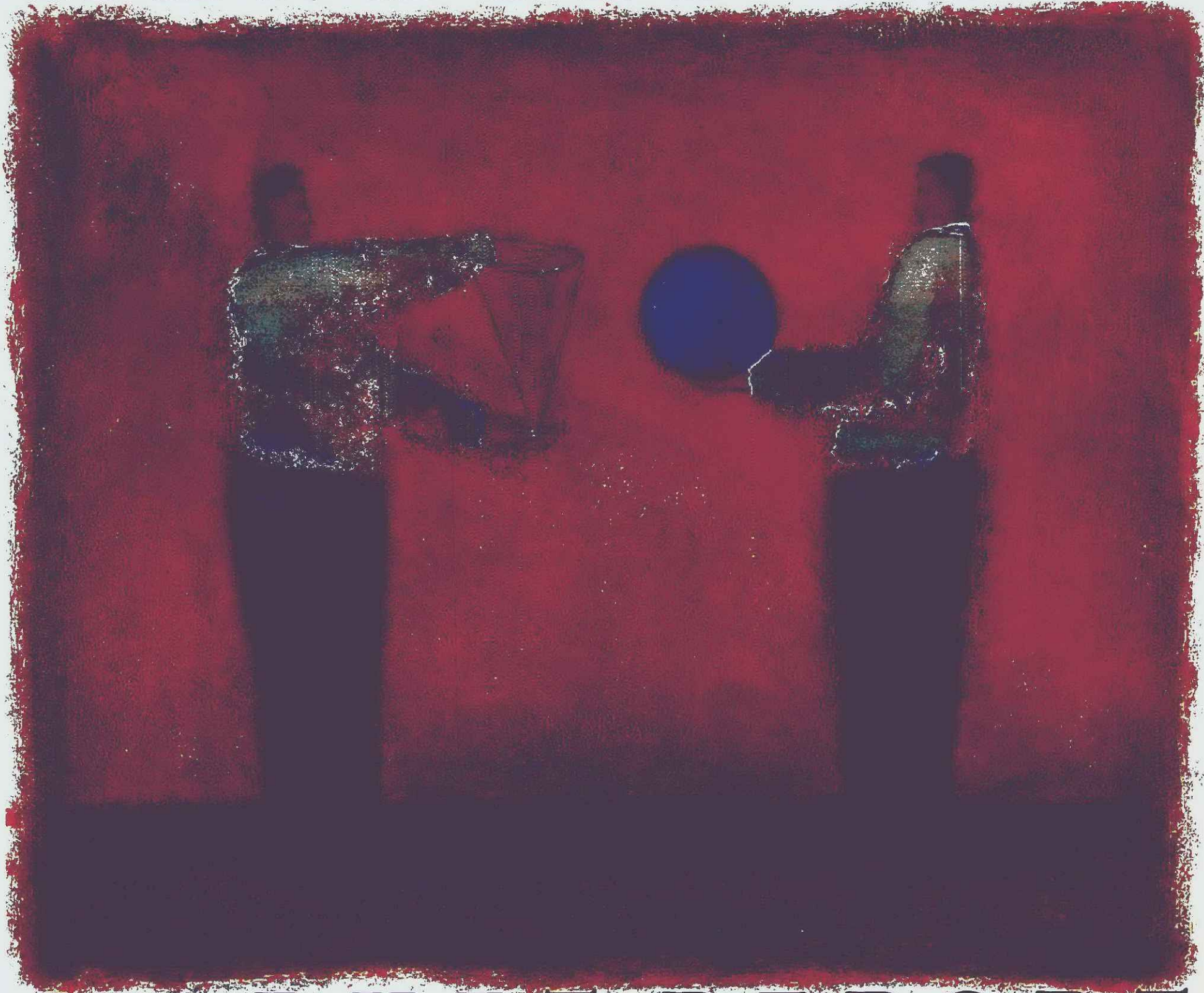
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Brokers

Continued from page 3

past several years, "some companies are willing to write a little more aggressively" and are lowering deductibles and lowering prices for windstorm risks, he said.

BROKERS REPORT

"The rest is the same old game," Mr. Brown said. "In fact, if premiums are substantial, in many cases accounts are being written at 75% of the three-year average loss cost."

With such cheap rates in the standard market, brokers say some self-insured clients are switching back to first-dollar guaranteed cost programs or reducing their retention levels.

"For the first time, I've seen a significant number of self-insurers return to first-dollar coverage," Mr. Gallagher said. "They are not doing it to take a chance." Rather, someone is willing to step in and take over all the risk at a cheaper price, he noted. "Two years ago, I argued that this would never happen. I've been proved wrong."

"Workers comp is softer than I have ever seen it," said Mr. Simmons of HRH. As a result, several self-insured companies have been able to buy first-dollar guaranteed cost policies for their workers comp coverage for a price they cannot turn down.

"We have seen this on numerous accounts," he said. "We have a company that is on a large-deductible work comp plan, and he wants to look at a first-dollar guaranteed cost deal just because these insurance companies are willing to, in many instances, price these things at a level where premiums come in below the losses."

Many of Near North Insurance Brokerage Inc.'s upper-middle and smaller large accounts also are looking at returning to first-dollar guaranteed cost programs, especially for their workers comp programs, said Mike Mann, senior vp and marketing manager for the Chicago-based broker.

Today, "the cost of risk transfer is a lot more attractive than retaining risk." He admits, however, that risk managers that have been self-insuring have to change their mindset when going back to the standard market. "They have to give up direct control and give back all the responsibility to the insurance company."

Ruth Tave, managing director for Near North, added that many clients also are "reducing self-insured retentions because it is so cheap to buy insurance right now."

Not only are insurers offering cheaper prices to retain business, but they also are trying to come up with innovative solutions to meet risk managers' needs.

"Today, there is greater opportunity for insureds than ever before to get what they want out of the marketplace," said Larry Sorensen, executive vp-corporate marketing for Aon Risk Services Cos. Inc. in Chicago.

Insurers are very willing "to step up and deal to clients what they need," he said.

Holistic risk products and various capital market applications are some areas risk managers continue to inquire about, brokers say. But actual activity remains more smoke than fire.

Risk managers want to become knowledgeable about such tools as capital market applications, call spreads on the Chicago Board of Trade, surplus note issues and double and triple contracts that provide a different approach to handling a larger basket of risks than they have traditionally been responsible for managing, said Willis Corroon's Mr. Hackenburg.

Risk managers in large corporations are starting to look at these products seriously. "How much of them they are buying at the moment? I would say there have been very few. There is much more looking and acquiring knowledge and education than implementation," he said.

Lawrence L. Drake, head of the New Product Council for global brokering at J&H Marsh & McLennan Cos. Inc. in New York, predicts "there will be more multiyear programs that incorporate

some form of risk financing like a basket aggregate or a profit recapture."

However, "we think these will

past six months heightened interest and demand for sophisticated risk assessment capabilities. This is occurring because there is more

'The cost of risk transfer is a lot more attractive than retaining risk,' says Mike Mann. However, he adds, self-insurers 'have to give up direct control.'

be driven more by the buyer and broker who will do the program design and then go to the market, rather than by the insurers who develop products and then try to compete," he said.

Mr. Drake and Bob Peretti, head of J&H/M&M's Carrier Placement Advisory Unit for global brokering, said they have seen within the

recognition that risk managers have to protect against many facets of losses, they say.

For example, if a manufacturer relies on a just-in-time supply system from his vendors—meaning companies do not keep large inventories and product is delivered exactly when it is needed—and is partnering with a limited number

of these suppliers, then there is a substantial increase in interdependency risk. New technology also is creating new significant risks for manufacturing, distribution and operations, especially for global operations dependent on suppliers and relationships in new locations.

One of the challenges risk managers face is to identify the so-called non-traditional risks that were not viewed as insurable, Mr. Peretti said. And now the insurance market has more willingness and capacity to entertain those risks. But there still is a challenge for risk managers to try to identify, quantify and find a market to accept that risk.

While risk managers are looking to blend a variety of risks, one such combination—integrating workers comp programs with group medical programs—has yet

Continued on next page



Continued from previous page

to take hold, brokers say. The reason behind this has more to do with corporate politics than anything else, they contend.

"Risk managers are interested, but there is still a political division in their own company," noted Charlie Fiske, senior vp with Sedgwick Inc. in Memphis, Tenn. "Employee benefits is traditionally headed by human resources, which is out of the bailiwick of risk management. It's a little difficult to do right now."

Where brokers do see integration occurring and where it will occur more in the future is between insurers and other risk management service providers.

Several brokers referred to the recent alliance forged between Arkwright Mutual Insurance Co. and Liberty Mutual Group and the agreement between The St. Paul Cos. Inc. and Allendale Mutual In-

surance Co. as examples.

Arkwright and Liberty Mutual have formed a strategic alliance to deliver broad property insurance and related risk management services to the commercial property insurance market (BI, June 16).

The agreement between The St. Paul and Allendale allows the two to pool capacity and supplement insurance capabilities on property coverage for large industrial companies.

"People are more cognizant that they can do things better with a partner if that partner can bring expertise," Mr. Gallagher said.

Mr. Fiske predicts that "by the year 2000, we'll see brokers and insurers align themselves together." So, for example, when a risk manager goes to its broker and asks for coverage from one particular insurer, that broker may have to tell its client to go to another broker more closely aligned with

that particular insurer.

"Strategic alliances are one of the hot topics right now," Mr. Fiske said. And it will not be limited to just brokers and insurers. "I will not be surprised if we see accounting firms, banks, insurance companies and financial companies buying each other."

As for some of the hot products in the market this renewal period, brokers say employment practices liability insurance is on many risk managers' minds.

"We've been writing more of that within the last six months," said Mr. Brown of Poe & Brown. EPL coverage "is heating up because lots of employers are now seeing the need for coverage, and prices are coming down," he said.

Mr. Gallagher likens employment practices liability to an iceberg. "We're seeing just the tip right now. There's a lot more underneath."

It's the next major wave of everyone's concern, he said. "It's a very key area now and in the future."

'The only effect from consolidation is that it has allowed us to become a more prominent player,' says J. Patrick Gallagher. Risk managers are more willing 'to hear our story.'

Since the beginning of the year, new insurers have entered the EPL market, and many that have been in the market previously have broadened coverage and reduced prices (BI, June 9).

In addition to more EPL coverage options, risk managers seeking expanded environmental liability coverage should have no problem

this renewal period.

"One hundred percent of our clients are getting expanded coverages," said Dave Dybdahl, man-

aging director-environmental risk management services at Willis Corroon in Nashville.

Risk managers most often are expanding pollution-related coverage for non-owned disposal sites, transportation risks for owned vehicles and third-party contractors, and business interruption, Mr. Dybdahl said.

Potential losses arising from what has been dubbed the "Year 2000 Problem" is one new risk on clients' minds, brokers say.

There is speculation in the marketplace that underwriters may begin to exclude coverage for computers that go awry because the internal clock is programmed with a two-digit year and may be unable to distinguish between the years 1900 and 2000 (BI, June 16).

There is discussion concerning so-called millennium insurance and whether insurers will respond to the need, noted Duncan Ashurst, senior vp and account executive at Near North. "Everyone's scratching their heads."

A few millennium insurance products are currently available in the market.

Reliance National Insurance Co. is introducing a new product with J&H Marsh & McLennan Inc. to cover liability and business interruption for companies with losses associated with the Year 2000 computer problem.

Earlier this year, the Minet Group, now part of Aon Group Inc., and AIG Global Risks launched its Millennium Insurance Policy with limits up to \$100 million. The custom-made policy protects against disrupted business or third-party lawsuits relating to computer system failure (BI, April 7).

One trend brokers see continuing during the rest of the year is brokerage consolidation.

It is not over, Willis Corroon's Mr. Hackenburg said. "Essentially, I think risk managers are looking to see how this whole thing boils out, and it's fairly early yet."

Other brokers that have not been a part of the mega-merger deals say brokerage consolidation has been productive for them.

The reaction from all the brokerage consolidation has been "a real positive" for Near North, Ms. Tave said. "Clients that may not have had Near North as an alternative before now are looking at us as an option."

"The only effect from consolidation is that it has allowed us to become a more prominent player," Mr. Gallagher agreed. Risk managers are more willing "to hear and listen to our story."

"I've heard some risk managers say they don't like brokerage consolidation because it reduces their choice," Sedgwick's Mr. Fiske said.

Insurers also are talking about reducing the number of brokers they work with and partnering with brokers and agents that can commit large volumes.

"It is a very difficult time for the independent shops with no sizable volume with a major carrier," he said.

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Insurers

Continued from page 3

Such a dramatic reduction is an exception, though, with typical rate declines for commercial property/casualty lines more in the range of 5% to 15% below last summer's renewal period, he said.

In addition to lower pricing, Tom Swensen, vp-underwriting and product services for Wausau Insurance Cos. in Wausau, Wis., also sees insurers facing a challenge from buyers to boost service or improve terms and conditions.

"Everyone's expecting reductions, but at the same time they want us to add a little more fluff to the coverage. It's gotten to the point where policyholders have squeezed as much as they can."

To continue to compete, he said, "We're concerned with what new ideas can come out to pique their

interest, and some of it relates to service enhancements, like online access to the insurance company.

"The last thing we can do to reduce costs is to see what can be done to control loss dollars," Mr. Swensen said. This can include getting policyholders more involved in claims processing, such as through online access to claim files, and giving them more loss prevention services.

"This costs more money for us, so it becomes a tough situation. In order to remain competitive and maintain our existing book of business, that's what we have to do," he said.

Midyear renewals are being completed later in the season than in the past, some insurers say.

"It seems hard to put things to bed these days," said Paul Krump, senior vp and managing director of Chubb & Son Inc. in Warren, N.J. Part of the delay, he said, is due to

brokers waiting until the end of renewals before finalizing a deal, in the hope that another insurer will come up with a better price or broader coverage.

Anderson, president of United States Fidelity & Guaranty Insurance Co.'s commercial insurance group in Baltimore.

The general liability market is

'Prices continue to go down in general liability. It's a systematic decline, and its intensity is the greatest it's ever been,' says Glenn Anderson of USF&G.

That level of competition is evident throughout the marketplace. General liability business remains soft, while specialty casualty coverages are even softer, insurers say.

"Prices continue to go down in general liability. It's a systematic decline, and its intensity is the greatest it's ever been," said Glenn

softer than it was a year ago, though rates have not experienced double-digit drops, said Royal's Mr. McDonald.

On the other hand, Wausau's Mr. Swensen said his company's general liability rates are "not seeing real significant reductions. It's comparable to what we saw Jan. 1."

Several underwriters noted that specialized liability coverages are under pressure.

Directors and officers liability rates, for example, are declining, said John Kearney, chief underwriting officer for Executive Risk Group in Simsbury, Conn. "It's just a matter of degree if it's single digits or double digits in certain lines or geographic regions. Everyone seems to be asking for rate relief.

"The marketplace is incredibly competitive. We have not gone over the cliff with bizarre or irrational acts on a daily basis. But they happen more frequently than six months ago," Mr. Kearney said.

"Professional liability is also very competitive, along with municipal liability," said USF&G's Mr. Anderson.

"Surety pricing is fairly competitive, as is bankers, professional, D&O—they're all highly competitive and sought-after business," he said.

Property rates are also soft at midyear, though the degree of rate declines varies by location and underwriter.

Commercial property rates, including those for highly protected risks, are "just like the liability side. It's more of the same," said Royal's Mr. McDonald.

Michael L. Downs, senior vp and chief operating officer—special risks division of Hartford Steam Boiler Inspection & Insurance Co. of Hartford, Conn., said, "two things are happening in the commercial area. In the moderate size market, there is tremendous competition. For small commercial accounts, there is a tremendous amount of product redesign going on," he said.

Commercial property rates are declining at midyear, though it is a "more modest decline" than a year ago, noted Mr. Anderson.

Wausau's Mr. Swensen said he is seeing reductions in commercial property rates but "not as significant as last year. It really is dependent on the individual risk. It also depends on geographic location. The coastal areas are less competitive. The Midwest is making up for lost time; we've seen that in the last year to two; carriers that before were more heavily involved in coastal areas shifted gears and went looking for other areas where they might write some initial business."

The highly protected risk market is facing the same challenges as the general property market.

"It is a very competitive market. Historically, our competitors have been in HPR, but most of our competition now is coming from foreign insurers, not HPR," said Kevin Lavin, vp and director of operations for Park Ridge, Ill.-based Protection Mutual Insurance Co. "They are attempting to acquire market share in North America right now. What they offer is significant capacity. Our customers desire and have confidence in our services, which are in engineering. This is something foreign competitors do not provide."

Esther Sprano, vp and chief marketing officer for Arkwright Mutual Insurance Co. in Waltham, Mass., said, "What I found is that the HPR rates have pretty much stayed very steady." She said there was no particular variation by geography.

"In terms of pricing or rating, it's fairly difficult all over," said Roland J. Bonitati, senior vp-marketing for Allendale Mutual Insurance Co. of Johnston, R.I. Mr. Bonitati said that in some cases, HPR rates have declined 10% to 20% from those of a year ago. He added that, in general, HPR rates

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Insurers

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for global accounts are softer than those of smaller companies.

Cat rates, while firmer in recent years than regular property coverage, also are down at midyear.

Many insurers are asking "too low a price and too low a deductible," for flood and earthquake coverage, said Chubb's Mr. Krump. Companies are "giving away coverage way too cheaply to be prudent." They do this, he said, to retain market share, "but it will come back and bite them hard."

"There is still a general concern over coastal properties and keeping the price level reasonably acceptable. Pricing for commercial earthquake has fallen 40% over the last year or so," said USF&G's Mr. Anderson.

"As far as the catastrophe mar-

ket goes, it is softening somewhat, but not anywhere near the extent of non-catastrophe. California earthquake pricing is declining," said Protection Mutual's Mr. Lavin. "In the kinds of accounts we're in, geography only comes into play in catastrophe exposures. The only thing that could affect coverage—because we are a natural catastrophe-driven business—would be a hurricane or an earthquake," he said.

Conditions in the workers compensation insurance market are also less than ideal for insurers, which often have a love-hate relationship with the heavily regulated line.

"Premium volumes are going down as a result of positive workers comp results over the last three to four years," said Wausau's Mr. Swensen. "States are looking at it, and they're basically saying that rates have produced very positive

results for you, therefore it's time to give some rate relief to policyholders," he said. At the same time, new companies are entering

improvement in loss cost structure of the system. Workers comp is deteriorating," said USF&G's Mr. Anderson.

Insurers are 'giving away coverage way too cheaply' in order to retain market share, 'but it will come back and bite them hard,' says Chubb's Paul Krump.

the line. "The combination of rate reduction and competitive pressures is causing premium volume for most of the old-time workers compensation (underwriters) to shrink," Mr. Swensen said.

Workers comp "is in the greatest degree of free fall in the marketplace. My fear is that competition is overstating the degree of benefit

"In California, the main event is workers comp. It's an absolute disaster. My perspective on workers comp, beyond California, is that price wars have spread like wildfire state by state. But California is the worst because of some structural changes several years ago," he said.

Meanwhile, looming now, as it

looms every year, is one of the more loss-prone seasons for insurers.

"Obviously, underwriters are focused on the upcoming hurricane season. I do believe the market is capitalized to such a degree that it would take a significantly severe occurrence to change conditions in the marketplace," said Allendale's Mr. Bonitati.

Hurricanes are not the only natural peril worrying underwriters, either, noted Arkwright's Ms. Sprano. She said the insurer considers "flood risk as the big emergency peril of today and the next decade because of global warming and demand on the environment." She noted that building roads, levees and other structures increases flood exposure. Arkwright is building a computerized flood model to help the insurer better assess these issues, she said.

Man-made exposures also are on insurers' minds. The emergence of business interruption exposures because of changes in the supply chain also is creating a challenge for insurers and risk managers, she said. These exposures include "just-in-time" delivery, where companies don't keep large inventories on hand and depend on goods being delivered at exactly the right moment, and situations where customers have totally eliminated an internal function and contracted it out to a supplier, she said. Arkwright has experts in individual industries who help risk managers assess their specific exposure areas.

But the biggest man-made exposure will have to be confronted within the next 30 months. Many computer systems in the year 2000, particularly systems and computers regulated with safety devices, present an emerging liability, said Hartford Steam Boiler's Mr. Downs.

Chubb's Mr. Krump believes the Year 2000 problem is a large looming exposure from both business interruption and liability standpoints if a company's computer system or other devices that rely on computer chips fail.

Chubb is looking into creating a new product that directly deals with the issue, Mr. Krump said. It is assessing "all the underwriting issues and how can we get our arms around them and respond in a reasonable fashion," he said.

Executive Risk's Mr. Kearney agreed that the Year 2000 problem needs to be examined. A company with a Year 2000 problem might try to recover under its D&O policy, he said. As a result, Executive Risk is assessing applicants' Year 2000 loss potential when underwriting.

Reliance National's Mr. Busti also sees Year 2000 concerns as a potential opportunity for underwriters. In fact, Reliance National is introducing a new product with J&H Marsh & McLennan Inc. to cover liability and business interruption for companies with losses associated with the Year 2000 computer problem.

Earlier this year, the Minet Group, now part of Aon Group Inc., and AIG Global Risks launched its Millennium Insurance Policy with limits up to \$100 million. The custom-made policy protects against disrupted business or third-party lawsuits relating to computer system failure (BI, April 7).

Executive Risk's Mr. Kearney sees financial deregulation creating new entities—such as combinations of banks and securities brokers into new and larger financial services companies—that will have new coverage needs.

See *Insurers* on page 40

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These newly merged companies will want a single policy that covers the different aspects of their operation. "It's a diversified financial services organization that does everything from A to Z. The type of product that responds to that does not exist," he said. The companies want to have one product that will cover the different aspects of their operation where today they are covered by different policies. To do this underwriters may need to create custom policies, he said.

Insurers also are rethinking risk financing challenges during this renewal season.

Hartford Steam Boiler's Mr. Downs said the biggest risk-financing challenge is "in the commoditization of insurance."

"There is so much capacity in the

marketplace today. There's new capacity that needs premium growth to generate investment returns. There is a trend toward integrated risk products; a slow trend, because market rates are so low," he said.

Allendale's Mr. Bonitati said he sees a trend toward quota-share programs, which allow the insurer to meet customer needs and capacity "in a more efficient manner."

He said he has also received several requests to provide guaranteed cost coverage over longer contract periods. Mr. Bonitati said this trend has emerged only during the past few months, which he believes may mean people perceive the market to be close to bottom.

"There's not too many of those because of the softness of the market, but there is a trend toward multiyear insurance programs to reduce remarketing costs. Insurance is being looked at by the fi-

nancial section, and the insurance market has to adapt to that," said Hartford Steam Boiler's Mr. Downs.

Arkwright's Ms. Sprano said risk managers are interested in multi-

'There is a trend toward integrated risk products; a slow trend because market rates are so low,' says Michael L. Downs.

line aggregate programs. She added, however, that being interested in a concept doesn't necessarily mean they are willing to buy the product.

"It's more like window-shopping than buying," she said.

USF&G's Mr. Anderson said oth-

er new products and services include a variety of special types of coverage, such as Internet liability insurance and electronic commerce insurance.

Employment liability insurance increasingly is sparking underwriters'—and buyers'—interest.

Mr. Kearney said Executive Risk has seen increasing demand for employment practices liability insurance policies. "We're doing a lot of EPL business, getting a lot of requests from existing clients as well as new relationships."

For EPL coverage, rates are steady but inconsistent among underwriters, he said. That is because the law and loss experience in the field are relatively new, and there is not enough experience to create a uniform pricing structure, he explained.

"There is ongoing growth in EPLI; it's clearly an emerging field," said Mr. Anderson.

"There's the issue of employment practices liability insurance. There's a lot of activity out there. The unknown is again what the legislation means. There's not a lot of court-tested cases involving, for instance, the Americans with Disabilities Act," noted Wausau's Mr. Swensen.

There is also demand from buyers for "the whole notion of safety and loss prevention products. It's what I call upstream intervention," said Karl Jacobson, senior vp and general manager-loss prevention department for Liberty Mutual Insurance Co. in Boston.

"They want help measuring the extent of hazard and control," he said. Buyers' position is: "Don't tell us how many accidents we've had, tell us about hazard prevention."

"We're also helping them rally the workforce in participating in control of exposure through self-directed work groups and teams. They want help training and developing these teams as they occur before somebody gets hurt. There's always ongoing training efforts," Mr. Jacobson said. **BI**

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Buyers

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Oglethorpe Power and two companies that have been split from the utility in anticipation of deregulation of the utility industry. The spinoffs are Georgia Transmission Corp. and Georgia System Operations Corp., both of Atlanta.

Ms. Anderson, who became an employee of Intellisource when her position as risk management coordinator with Oglethorpe Power was outsourced, said she was "pleased to have rates remain stable," particularly in light of the significant rate reduction the utility gained at its 1996 renewal.

The property coverage includes a variety of deductibles beginning at \$100,000, Ms. Anderson said.

"The market is very interested in writing property," said Nick Parillo, vp of risk management at Columbia Gas System Inc., a Reston, Va.-based pipeline and energy company that produces and distributes energy products to residential and commercial customers.

"Overall, rates are stable," he added. "However, I'm hopeful that I'll be able to enhance coverage."

Mr. Parillo said, for example, that he hopes to increase coverage for business interruption risks while keeping the cost of the insurance stable.

Columbia Gas retains the first \$750,000 of its property program in its Bermuda captive, Columbia Insurance Co. Ltd.

"The most impressive part of renewals is that virtually all markets we visited were listening, not preaching, and viewing me as a customer," Mr. Parillo reported. "They were keenly interested in providing value-added services to enhance basic coverages."

Mr. Mandel is busy buying coverage for what is becoming the largest restaurant company in the world and is finding rates to his liking.

PepsiCo Restaurant Services Group parent PepsiCo Inc. is exiting the restaurant business and spinning off the restaurant group into a separate, as yet unnamed company. The new company will operate current PepsiCo units Pizza Hut Inc., KFC Corp. and Taco Bell.

Keeping a \$1.5 million self-insured retention, Mr. Mandel placed international property coverage for the new company in the London market at favorable rates. Domestic property coverages should be in place by the time the new company is expected to begin operating in early October.

"It's kind of more of the same," Mr. Mandel said of this year's renewal season. "There are no significant differences from a year ago or even two years ago. It's a continuing market softness."

There are exceptions to the soft property market for some risk managers.

Burlington Industries Inc. in Greensboro, N.C., expects higher rates and some restrictions to its property coverage because of last year's losses from Hurricane Fran, according to Gerard McCabe, director of risk management for the manufacturer of textiles, apparel and home furnishings.

The storm damaged 26 of the company's plants, with losses totaling nearly \$3 million. The coverage package written by Royal Insurance Co. about a month before the storm carried a \$100,000 per occurrence deductible.

"We are seeing more inland hurricane damage than we would have anticipated," Mr. McCabe said. He has heard some insurers may be broadening the definition of coastal property to 300 miles inland from 100 miles, especially after their ex-

perience with Hurricanes Fran and Hugo.

Mr. McCabe is awaiting a quote from Royal and anticipates perhaps higher rates as well as an increased deductible from \$100,000 to \$250,000 or \$500,000. Another possible change could be lower sublimits for risks subject to floods, windstorm and earthquake, he said.

Risk managers are finding insurers as competitive on the liability side as with property insurance.

"The market in general is still soft for casualty" risks, said Mr. Mandel. Mr. Parillo of Columbia Gas agreed. "From a rate standpoint, we believe the market is very stable. Things are relatively flat."

Columbia Gas for the first time this year bought legal liability coverage to protect its 40 to 50 in-house lawyers, he said.

Some buyers are finding signifi-

cant savings on liability insurance, as well as improved coverage terms.

Hormel Foods Corp. in Austin, Minn., obtained "a drastic reduction" of about 50% in premium

'Virtually all markets... were keenly interested in providing value-added services,' says Nick Parillo of Columbia Gas.

costs for combined low- and high-layer excess liability coverages, said Grant Johnson, risk manager for the food processor and distributor.

Hormel's liability insurance program consists of a \$1 million self-insured retention followed by a

\$110 million umbrella. The first \$10 million of the umbrella is placed with American Re-Insurance Co.

Coverage enhancements on the excess program for Hormel include a guaranteed premium on a three-year policy with no auditing if there is no material change in operations, according to Mr. Johnson.

New terms for the first time allow an entity other than Hormel to pay all or part of the company's self-insured retention. So, for example, if Hormel sued a third party and won, that award could be applied to fulfill the requirement of Hormel's SIR.

Mr. Johnson said several factors helped Hormel in coverage negotiations, including a competitive marketplace; the company's good claims-handling procedures; and a long-standing relationship with the lead excess insurer, American Re-

Insurance Co., which has not been called on to pay a claim since signing on in 1991.

"It's a very, very competitive market out there," he said. Hormel ratcheted the competition a notch higher by having two brokers compete for the excess placement. J&H Marsh & McLennan Inc. retained the account in favor of The Hays Group Inc. of Minneapolis.

Mr. Johnson said he is finding more insurers willing to write coverage for contaminated products this year and expects the increased competition to cause premiums to drop significantly. The insurance covers losses related to accidental contamination as well as product tampering.

KFC National Purchasing Cooperative operates a small insurance agency that writes health and prop-

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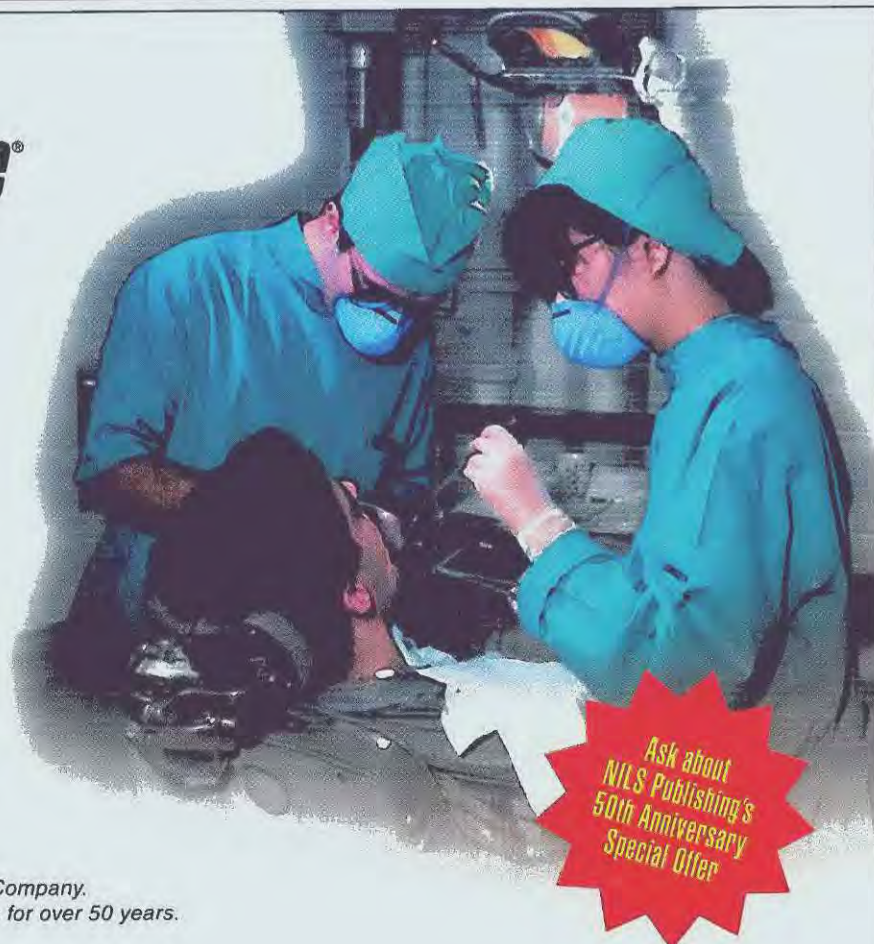
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erty/casualty coverages for KFC franchisees. The subsidiary hopes to begin offering product contamination coverage soon that would protect franchises from a loss of business due to media reports of problems, whether true or unfounded, Ms. Wilson said.

SunTrust renewed most of its liability coverages with premium reductions, according to Ms. Dickinson.

The company buys primary property/casualty coverages for its 29 banks and a number of non-bank financial services companies from Professional Surety Corp., a Madison, Ga.-based insurer owned by SunTrust.

Ms. Dickinson explained that the insurer's rates track those of the rest of the property/casualty market and

prices are kept in check partly because "SunTrust is a pretty good risk."

SunTrust's excess liability coverages are written by several insurers, including units of The St. Paul Cos. Inc. and National Union Fire Insurance Co. of Pittsburgh, Pa., a unit of American International Group Inc.

"I've found the marketplace very receptive," said Richard H. Saylor, insurance and risk manager at Coca-Cola Beverages Ltd. in Toronto.

Liability and commercial automobile renewals placed by Sedgwick Group P.L.C. and written by General Accident P.L.C. went off without a hitch at favorable prices for the same limits, he noted.

Oglethorpe Power's Ms. Anderson said she was concerned that the utility's spinoff into three separate companies would result in a big overall price hike for liability insurance. That didn't happen.

There was only a slight increase in the cost for three companies as opposed to one, Ms. Anderson said. "There was not any significant increase in dollars in doing that."

Liability exposures for three entities are covered at the same limits as they were when they were part of one company, Ms. Anderson explained. St. Paul writes the underlying coverages while the excess insurer is Associated Electric & Gas Insurance Services Ltd.

As the market for employment practices liability coverage matures, more buyers are considering adding it to their insurance portfolios.

The coverage "is becoming much more available, and rates and deductibles are going down," said KFC's Ms. Wilson.

Mr. Johnson of Hormel and Mr. McCabe of Burlington said they plan to take a closer look in the future at buying employment practices liability insurance. **BI**

London market enjoys return of buyers but not soft pricing

By STACY SHAPIRO and EDWIN UNSWORTH

Buyers are returning to the London market.

Now that Lloyd's of London is back on track and new capital has come streaming into the market, business is returning to London that hasn't been seen here in a long time, market executives say.

Although the market at midyear continues to be soft for most lines of coverage, buyers could see an upturn in the near future, some executives predict.

London underwriters maintain

there are some faint signs that the market has hit bottom and is poised for an upturn. British auto insurance rates, often a bellwether for other non-marine lines,

LONDON REPORT

are on the rise.

In many areas of the London market, however, rates continue to fall as they did during year-end renewals. Worldwide property catastrophe reinsurance rates are dropping as much as 50%; North American liability reinsurance is seeing 10% to 25% reductions; and North American liability insurance can command 30% to 50% rate reductions.

Terms and conditions also are broadening. For example, multi-year property programs are becoming fashionable. There also has been a return to a retrocessional market not seen since the 1980s, when the London market excess-of-loss spiral took hold in London and cost the market billions in losses.

"We are busy with our July 1 renewals, and we are surprised by the number of new opportunities we are seeing," said Ken Barrett, chief underwriting officer for casualty, strategic marketing and development for Zurich Reinsurance Co. in London.

The London market may only accept about 10% of this new business, "but it's good to see the business coming in," he said.

"London has been re-emphasized and London orders are up," added Neil Maidment, treaty underwriter for Lloyd's syndicate 623, managed by Beazley Furlong Ltd.

Lloyd's has been described as particularly aggressive this season to get the business.

"London is again more buoyant than in the last few years and there's a lot more capacity," said Ross McKenzie, chairman-nor-marine for Aon Group Ltd. "There is a fair bit of bullishness around Lloyd's and the London market."

There's a better choice of leads in London now than there has been "in many years," he said. Lloyd's also is very competitive and is "back on stage as a major competitor in the world marketplace."

And the market is indeed competitive in London during midyear renewals of primarily U.S. and Australian business, just as it was during year-end renewals.

Mark Boleat, director general of the Assn. of British Insurers, warns that "to maintain profit levels this year or achieve an increase will require higher premiums or a reversal of the recent upward trend in claims."

However, Mr. Boleat concedes that "further pressure on profits can be expected this year with strong competition for business."

"It's getting tougher, and it's going to continue getting tougher," added David Mann, chief underwriter at Lloyd's underwriting agency D.P. Mann Un-

See London on next page

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 derwriting Agency Ltd. Rates are "still getting weaker," he said. Asked if he sees any sectors of the London insurance market showing even faint signs of improvement, Mr. Mann replied: "Absolutely none."

Others are more optimistic. Tony Baker, the ABI's deputy director general, says auto insurance—which is sometimes seen as a bellwether for the rest of the market—is showing rate increases of about 5%. This is still well short of the 10% increases that the sector needs to return to profit, Mr. Baker added.

Indeed, the U.K. auto business is showing signs of lifting off the bottom, added Mark Brockbank, group chief executive for Brockbank Syndicate Management Ltd. and underwriter for Lloyd's syndicate 851. And there are signs that the downward pressure on U.K. policyholders' rates appears to have ended in other fields, such as property, accident and health, and general liability, said Mr. Baker. But because competition remains fierce, "it will be difficult to get any rate increases to stick."

"There are signs of the market moving upwards," added Reg Brown, liability underwriter for Lloyd's syndicate 702, managed by Octavian Syndicate Management Ltd. U.K. property rates are probably as low as they're going to get, he said.

Other than in these domestic U.K. categories, however, the London market remains soft for international business.

"We are certainly down" in the underwriting cycle, said Aon's Mr. McKenzie. "I don't know where the bottom is anymore, but we're at the lower end of the market than we've been in the last decade."

As long as there isn't a major catastrophe, "there is no reason for pricing to be corrected," Mr. McKenzie added.

"There is ferocious competition for business because we are facing a long period without any losses," added John Pelly, chairman of non-marine reinsurance for Willis, Faber & Dumas Ltd., the reinsurance unit of Willis Corroon Group P.L.C.

Since 1993, reinsurers around the world have made "significant" profits because prices have been steep and there have been few catastrophes, he said. "It's been a good period for the insurance industry, superior results for reinsurers."

Underwriters therefore are now battling for market share, he said.

The market will continue to be soft at year-end renewals, when even more capital will come into the London market, executives add.

"It's quite a good time to start an operation because from here, the likely direction is up" in the underwriting cycle, said Wayne Daniel, executive director in charge of comprehensive risk solutions for Liberty Re Ltd.

Liberty Re hopes to be licensed by the Department of Trade and Industry by year-end renewals with capital of £250 million (\$416.1 million).

The company expects to write £500 million (\$832.3 million) of premium annually within five years, said Mr. Daniel.

"We are still in a very competitive market, and generally rates are falling," added Brian Cragg, chairman of London International Insurance & Reinsurance Market Assn.'s statistics subcommittee and general manager of Cologne Re Ltd. in London.

LIRMA's survey released last month of the year-end renewal season as of Jan. 1, 1997, shows that while most London-based insurers and reinsurers are reporting large profits, "generally the terms they are writing on are getting worse," he said.

Mr. Cragg said reinsurers need to look again at rating levels. "If the historical claims frequencies have not changed, it would be difficult to justify the level of rates (at the next renewals) we are seeing today," he said. However, he is not optimistic that this downward direction in rates will be reversed in 1998.

LIRMA's survey of two-thirds of the London reinsurance company market showed that gross premium volume fell at year end, as did the number of reinsurance contracts being written.

According to Mr. Cragg, this could be the result of recent con-

solidation among insurance companies, leading to fewer companies taking larger layers of cover for themselves and passing on larger contracts to fewer reinsurers.

compared with 70% showing decreases in the January 1996 renewals.

Mr. Cragg noted this sector remains "very competitive" and said there has been little change

'If the historical claims frequencies have not changed, it would be difficult to justify the level of rates (at the next renewals) we are seeing today,' says Brian Cragg.

LIRMA's survey also showed that:

- Rates for property catastrophe reinsurance fell by 10% to 15%.
- Property non-proportional business was one of the weakest sectors, with 85% of contracts showing decreases in rates on line,

from this trend at the midyear renewals.

- Cedents retained more of their property proportional treaty business.

These conclusions match what underwriters are saying in the market during midyear renewals,

though some say rates have decreased even further. For example, one executive claims that property catastrophe reinsurance rates have fallen by as much as 50%.

Beazley's Mr. Maidment added that property catastrophe reinsurance rates on line are down about 10% to 15% in the United States but by as much as 20% elsewhere.

Rates for catastrophe risks remain weak in the absence of any major losses, added Mr. Brockbank.

That makes this year's hurricane season very important in determining the direction rates will go. "If there are no major claims, the market is going to keep sliding downwards," he said.

Underwriters also see a continuing soft market in the liability field.

Of the liability side, Octavian's
See London on next page

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London

Continued from previous page

Mr. Brown said, "All one can say, generally speaking, is that the market is still very competitive at the moment."

Ken Davies, chief underwriter for syndicate 463, managed by Archer Managing Agents Ltd., agreed that the market for employers liability and general liability remains competitive, though he said further reductions are being seen in most risks, particularly on larger accounts.

London lost hundreds of millions of dollars worth of North American general liability insurance business in the mid-1980s when the market decided only to offer claims-made policies rather than occurrence forms, said Zurich Re's Mr. Barrett. Much of this business that was lost to the

market "could have been written on an occurrence form to this day" without causing massive claims, he said.

Today, less than a handful of companies, including Zurich Re, offer North American general liability insurance in London, he said. "Unless the London market is prepared to do something substantial—such as cut prices dramatically—this business won't return," said Mr. Barrett.

Zurich Re has pared its North American casualty insurance volume by about 40% in the past three years rather than accept the soft prices, however. There are "cutthroat" North American casualty prices slashed by as much as 50% being seen in London right now coming from the Bermuda and U.S. markets, said Mr. Barrett.

London does offer other types of liability coverage, however, said

Mr. Barrett, such as North American casualty reinsurance, where rate reductions are from 10% to 25%; and professional liability insurance, where there are reduc-

cause of the soft market.

Even though directors and officers liability insurance also is very cheap, Lloyd's Mr. Brown is concerned that clients are buying

'All one can say, generally speaking, is that the (liability) market is still very competitive at the moment,' says liability underwriter Reg Brown.

tions of 20% to 30% for lawyers.

London underwriters are questioning whether they should introduce exclusions on liability policies, particularly professional liability policies, for the Year 2000 computer problem, but so far only a few have been drafted be-

inadequate limits. For example, a typical directors and officers liability policy has a limit of £5 million (\$8.3 million), which he thinks is "wholly inadequate." Mr. Brown attributes this situation to the phenomenon that when rates are cheap, clients want to

get their insurance coverage as cheaply as possible.

D&O liability "is the most competitive of all due to the lack of claims made in this area and the large capacity that is now being offered by each of the main insurers," added Archer's Mr. Davies.

Meanwhile, in London's marine sector, Mr. Brockbank says rates remain soft and are still being reduced rather than increased. However, "there are small signs that the bottom many have been reached" in that there appear to be fewer fringe players, he said.

Peter Wright, chief underwriter for Archer marine syndicate 741, said overcapacity continues to push down rates in this sector, and some large syndicates and "aggressive" insurance companies, eager for more income, are leading business in which they have no experience.

More optimistically, Mr. Wright says, "Although it is difficult to predict when the bottom of the cycle will occur, there are some signs of determination by underwriters not to give in to every owner and client."

In the aviation market, Richard Maylam, chief underwriter on Archer aviation syndicate 270, says premiums have continued the decline this year that began last year as a result of a combination of overcapacity and low losses. However, he points out that world airline premiums have risen "dramatically" since the low point of the rating cycle in 1990 as airlines increased their fleet values and passenger mileage.

This midyear renewal season is unique in at least one way, however. In the past six months, there have been at least five major broker acquisitions in a battle for first place between Aon Group Inc. and Marsh & McLennan Cos. Inc. Most of these mergers have driven monumental consolidation in the London broker market.

Aon and J&H/M&M together account for 50% of the gross premiums placed at Lloyd's, according to underwriters.

Most London executives say it is too early to say how these mergers will change the marketplace.

"It is difficult to see any effect at the moment," said Stephen Riley, managing director of Swiss Re U.K., which merged with Mercantile & General Reinsurance Co. last year. However, "our clients have fewer choices, and there is a concern about that."

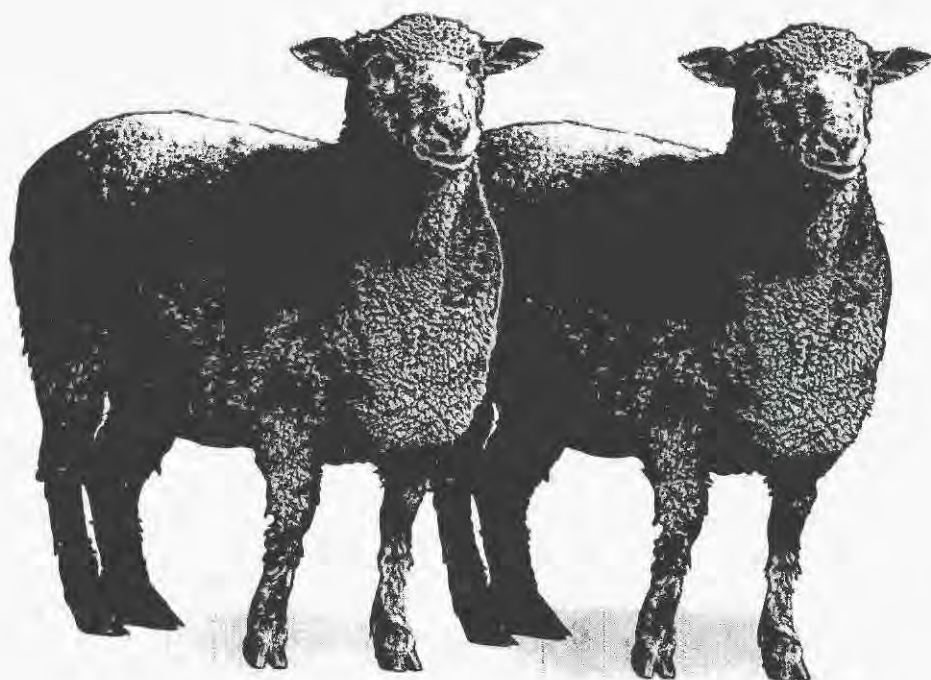
Swiss Re U.K. won't know until the year-end renewal season how successful it has been in retaining M&G Re's business, Mr. Riley added.

"It is slightly early days, but I'm sure it will have an impact on the market," said Beazley's Mr. Maidment. The brokers should be able to control their costs better, which could be an advantage, he added.

Executives who have been in the market for a while and have seen many a merger already await the spinoff brokers that will be formed by the scores of people who will be laid off as a result of the recent acquisitions.

Despite the mergers, however, "there are still plenty of competitors out there," said Aon's Mr. McKenzie. There used to be the Big Six in London and now there are the Big Four "or Big Two plus Two," he said, referring to Aon, J&H/M&M, Sedgwick Group P.L.C. and Willis Corroon Group P.L.C.

Regarding the mergers, though, "clients are very positive," said Mr. McKenzie. "They see us as bigger, stronger and with a better spread. And they're allowing us a honeymoon period." **BI**



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Capacity up, prices down in surplus lines market

Market seeing competition from new players

By JOANNE WOJCIK

The surplus lines market is softer than ever, with capacity going up and prices coming down for even the toughest classes of business.

Traditional surplus lines marketers also are working harder to keep from losing ground to new players coming into the market.

Surplus lines markets also are developing new coverage facilities to respond to the few pockets of the commercial property/casualty market that have remained somewhat tight.

"It's a lot more work for brokers" to keep business at renewal time, said Pennington H. Way III, executive vp of Reliance National Insurance Co. of New York.

Reliance National oversees Reliance Group Holdings' surplus lines operations. "Every renewal is like a piece of new business," he said.

And that means insurers must reassess the accounts with the same

he said.

"It varies from line to line, but also by sub-line," he said.

On the excess side, rates continue to decline anywhere from 10% to 15%, while capacity seems to be increasing almost continuously. It takes fewer insurers to assemble sizable limits than it did in the past, he said.

"There seems to be no end to the amount of capacity available for excess and umbrella business," Mr. Palmieri observed.

"Overall, the market's as loosey-goosey as it's ever been with early-

1980s pricing," said Paul W. Springman, president of underwriting manager Shand Morahan & Co. Inc. in Evanston, Ill.

As a result, "we have to run two or three times faster just to keep the same position in the race," he said, comparing surplus lines market competition to a marathon.

"It's the same record as was played last year, except property is even softer," said Dave Hartock, president and CEO of Swett & Crawford Group in Los Angeles.

Mr. Hartock, formerly president of Sherwood Insurance Services, recently took the helm at Swett & Crawford after the wholesaler was

acquired by Aon Corp., Sherwood's parent.

Helping to put pressure on pricing in all lines is the increased capacity

'Overall, the market's as loosey-goosey as its ever been with early-1980s pricing,' says Paul W. Springman. 'We have to run two or three times faster just to keep the same position.'

He estimated that cuts in July renewal premiums are averaging anywhere from 10% to 30% in all lines.

coming from new players in the surplus lines market.

See Surplus on next page

SURPLUS REPORT

attention to detail and intensity as if they were analyzing them for the first time.

But, "if you're a risk manager of a large sought-after corporation, it's probably much like shooting fish in a barrel," quipped Mr. Way.

"Rates are still coming down as much as last year when we all thought it had bottomed out," said Robin Henderson, senior vp and casualty manager for Stewart Smith West in Glendale, Calif., a division of Stewart Smith Group Inc. and a unit of Willis Corroon P.L.C.

She estimated that casualty business is renewing at premiums as much as 25% below last year's.

The "differential is not as great for smaller risks, which are down maybe 5% to 10% from last year," observed Bob Keul, vp-underwriting at Scottsdale Insurance Co., a unit of Nationwide Mutual Insurance Group in Scottsdale, Ariz. "But anything with a six-digit premium is subject to major cuts."

Indeed, "it's still a buyers' market," agreed Marcus Payne, president and chief operating officer of surplus lines broker Crump Insurance Services Inc. in Dallas.

While casualty is the most cut-throat line, prices are also falling on the property side—even for California earthquake and coastal wind-storm risks.

"All we're seeing now are decreases everywhere," said Paul McCain, vp-property broker for Crump in Dallas.

For example, rate cuts on tough property accounts, either by class of business or loss experience, range from 25% to 35%, according to Mr. McCain.

"One energy account with horrendous loss experience saw an almost 50% cut" in premium, Mr. McCain recounted. "The higher the premium, the bigger the cut."

California earthquake insurance renewal premiums are coming in 8% to 10% below last year's, while Florida hurricane rates are anywhere from 5% to 10% under 1996 premiums, estimated Ralph J. Palmieri, president and chief executive officer of underwriting manager First State Management Corp. in Hartford, Conn.

By comparison, non-catastrophe property rates are down 5% to 8%,



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Surplus

Continued from previous page

Among the new competitors are reinsurers and standard insurance companies that have formed specialty units.

"Every large, standard market insurer either is in or is about to be in our side of the business," said Scottsdale's Mr. Keul.

And it seems new surplus lines insurers are continuously being formed, he said.

"Fifteen years ago, there was one surplus lines insurer in the metropolitan Phoenix area. Now there are 10," Mr. Keul estimated.

Reinsurers are also starting to compete for surplus lines business, said Swett & Crawford's Mr. Hartock. They're bypassing insurers and "going direct to the source," he said.

In fact, several reinsurers tried

to solicit business from wholesalers at the May 18-21 American Assn. of Managing General Agents conference in Kona, Hawaii, according to Mr. Springman of Shand Morahan.

"Our reinsurers are competing with us," he said.

Lloyd's of London also has returned to the market in a big way, having overcome its security concerns with the creation of Equitas Ltd., according to Mr. Springman.

Equitas was set up last year to take over Lloyd's pre-1993 liabilities.

"Once Equitas was established, we've seen London underwriters come back more aggressively, offering three-year programs, reinstated aggregates and aggressive pricing," he said.

Mr. Springman said the ongoing turmoil at the Illinois Insurance Exchange has been hardly noticed

at renewal time.

The IIE had three syndicate insolvencies during an eight-month period from late 1996 to early 1997 (BI, June 9; March 10).

"For every account that comes

plus lines market gets, most surplus lines marketers and underwriters say.

"If you're an obstetrician in Harris County, Texas, looking for malpractice insurance, you don't

'While California homebuilders is still a tough market, more companies are willing to address these risks,' says Marcus Payne. 'We're putting together a program.'

out of the exchange, there seems to be a ready underwriter willing to take it on with the same terms," he said.

Still, some segments of the market are likely to remain tough no matter how soft the overall sur-

think it's a soft market," pointed out Mr. Springman.

Obstetricians there, which is the Houston area, are looking at six-figure premiums for just \$1 million to \$2 million in medical malpractice coverage, Mr. Springman

estimated.

Prices are holding firm for small law firms' professional liability coverage, too, according to Mr. Way.

"We do have greater loss activity in that size firm," he said.

And while the entertainment field is extremely competitive, "there's some pulling back in some classes like promoters, film and rap concerts," he said.

There is a light at the end of the tunnel for at least one traditionally tough class of business, though: California contractors.

"While California homebuilders is still a tough market, more companies are willing to address these risks," said Mr. Payne of Crump. "We're putting together a program."

And Stewart Smith-West began marketing a new facility in April that somewhat hedges its bets in this area by requiring policyholders to submit to a risk management review before coverage is bound.

"They have to be risk management-oriented," explained Carole Fleischman, senior vp.

Already the Glendale, Calif.-based broker has produced \$5 million in premiums for the new coverage, though she said that the company has declined at least 50% of those that have applied.

The facility provides up to \$5 million in limits for primary liability, architects errors & omissions, product liability and completed operations for a minimum premium of \$50,000, Ms. Fleischman said.

The residential program is underwritten by Legion Indemnity Co., and the commercial builders program is underwritten by Legion Insurance Co., both based in Philadelphia.

Crump is developing programs for some special risks, such as ambulances and small-employer workers compensation in New Jersey, according to Mr. Payne. The New Jersey workers comp program will be written on an admitted basis by Meadowbrook Insurance Co. located in Southfield, Mich.

In fact, more surplus lines insurers have established affiliates or units that can write in the admitted market what has traditionally been written on a non-admitted basis.

"There's going to be more program business" in the surplus lines market, he predicts. That's because programs, which group smaller but homogeneous risks together, provide for economies of scale, he explained.

Scottsdale's Mr. Keul agreed, pointing out that competition in the non-profits' directors and officers liability market has prompted the insurer to offer other coverages to its policyholders.

"We're doing package policies," he said, assembling property, casualty, transportation and directors and officers for non-profit organizations.

"We're the be-all-things surplus lines market," he said.

Only a major catastrophe, like an earthquake in downtown Los Angeles, or a hurricane in New York, is likely to have any impact on the soft surplus lines market, observers say.

But even that is unlikely to make much of a dent unless it's also accompanied by a sudden change in interest rates or a stock market crash.

"The financial market plays a not insignificant role in the energy and strategy of the commercial insurance industry," observed Mr. Palmieri. **BI**

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Reinsurer competition speeds drop in rates

Insurers getting more for their money as rates, conditions improve

By **GAVIN SOUTER** and
JUDY GREENWALD

Insurance companies are spending less and less on reinsurance as rates continue to drop and retentions continue to edge up.

Insurers also are getting more for their money as reinsurers ease conditions as well as lower rates.

marketplace in the U.S.," said Joe Fedor, executive vp of intermediary U.S. Re Corp. in New York. "That's in spite of hurricane predictions. This is going to be the third consecutive year that will be worse than normal," he said of forecasts for 1997 hurricane activity (*BI*, June 16).

"Things are getting cheaper, prices are declining, people are changing terms and conditions in order to keep prices up, and I would say all areas of the market are soft," said Steven Bolland, senior vp with reinsurance intermediary Gill & Roeser Inc. in New York.

However, he added, "There's very few crazy reinsurers out there. I think the insanity isn't there. It's just that the competition is making everybody compete." Business will move for a 10% or 15% cut in rates, he noted.

"The trends that we've seen in the past just seem to be continuing," said Jeff Cooper, executive vp with Kemper Reinsurance Co. in Long Grove, Ill. "We don't see any change in direction. It's just more of the same, unfortunately."

Rate declines vary depending upon the line of business and geography.

The cuts are "between 10% and 25%, mostly on the property side. Casualty is going down on a marginal basis, probably to 5% to 10%," said U.S. Re's Mr. Fedor.

Commercial liability rates have decreased between 5% and 15%, said Mr. Bunaes of Constitution Re.

Property and liability reinsurance premiums generally are decreasing by between 5% and 10%.

'Just about all we've seen continues to reflect a softening of the marketplace in the U.S.,' says Joe Fedor .

while at the same time reinsurers are offering more coverage, said Edmund Megna, managing director and executive vp at Guy Carpenter

& Co. Inc. in New York.

For example, loss corridors are being moved to a higher level, he said. Loss corridors are the portion of risk that cedents retain at a certain level in a treaty reinsurance program. For example, a reinsurer may cover the first 65% of losses under a treaty, then the cedent will cover the next 5% and the reinsurer will then cover the top 30%. The purpose of the loss corridors is to encourage cedents to control their losses.

Now loss corridors, in some cases, are moving up so cedents do not have to pay any losses under a treaty until at higher levels, Mr. Megna said.

"Many reinsurers are willing to look at conditions, but it depends on the company. It's another sign

REINSURERS REPORT

Excess capital, good financial results and an absence of any market-rocking catastrophes are keeping the reinsurance market soft, say reinsurer and intermediary officials. Many reinsurance buyers are taking full advantage of this soft market by shopping their business around.

One or more major catastrophes or a downturn in reinsurer's stocks may represent the only realistic prospects of any significant change in the reinsurance market for the immediate future.

While the ongoing consolidation in the reinsurance market means there are fewer players, it has failed to drain any excess capital out of the industry. At the same time, the revived Lloyd's of London is an additional player in an already competitive field.

No change in the market's intense competition is evident this renewal season.

"I would suggest that it is remaining quite competitive, and I think it's driven by a couple of things," said William Munson, president and chief operating officer of the Morristown, N.J.-based Mercantile & General Reinsurance Co. of America. M&G Re was acquired by Swiss Reinsurance Co. last year.

"The primary markets are surprisingly, in many cases, increasing their retentions. At the same time, pricing may be extremely weak, (with primary insurers) probably trying to drive up net written premiums. Reinsurers are responding by either lowering prices, or adjusting various terms and conditions, so it's a pretty competitive market out there," he said.

"It's a competitive marketplace," agreed John N. Gilbert Jr., president of Holborn Corp. in New York, a reinsurance intermediary. "It continues to be more so with each succeeding half-year and will probably continue to be more so until there's some form of major loss activity. But I gather it's not going to take one large loss. It's probably going to have to be a number of losses in the aggregate."

The high level of excess capital in the reinsurance market is preventing any turn in the market, agreed Bard Bunaes, chairman of Constitution Reinsurance Corp. in New York. As a result, one large catastrophe loss is unlikely to lead to a hard market on its own. "There is so much excess capital in the market, and it will take several disasters to end that," Mr. Bunaes said.

"The market's still slipping," said Mike Bungert, president and CEO of Chicago-based Aon Re Inc. "It's a case of far too much capital chasing too little premium."

"Just about all we've seen continues to reflect a softening of the



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Reinsurers

Continued from previous page of the continuing soft market," he said.

Reinsurers also are more willing to offer multiyear contracts for property and casualty business, said Mark Hinkley, executive vice president of TIG Reinsurance Co. in Stamford, Conn.

Just as with primary policyholders, cedents like to lock into competitive rates and avoid annual renewal negotiations, and in some cases reinsurers welcome the multiyear contracts, too, he said.

"Particularly in quota-share business, we always preach long-term relationships, so it seems to make sense there," Mr. Hinkley said.

Cedents also are seeking to increase their retentions despite the decreasing cost of buying reinsurance, he said. With primary rates also in decline, managers at insurance companies are looking for ways to maintain growth, Mr. Hinkley said.

"Senior managements don't want to see their top line erode

and they see layers of insurance performing well so they decide to retain more," he said.

Property insurers buying catastrophe reinsurance are also increasing their retentions, said Graham J. Dimmock, executive vp at Partner Re Ltd. in Bermuda. "Some larger insurers are questioning the amount of reinsurance

dents buying property catastrophe reinsurance are increasing retentions despite a decline in rates.

In high-exposure areas, such as Florida and California, average declines in catastrophe reinsurance rates are in the single-digit range, while in other areas in the United States they are declining by about 10%, Mr. Hynes said.

Paul Davies, vice chairman of Chicago-based Aon Re Worldwide Inc., said "what I've seen has been a dramatic rate decrease in the catastrophe area. I would say at

'What I've seen has been a dramatic rate decrease in the catastrophe area. I would say at least 10%, maybe more,' said Paul Davies of Aon Re Worldwide.

least 10%, maybe more. "All areas are soft, but I don't think there's been as much dramatic change as there has been in the cat area. It's the one market that got tight in the last five years, and so it's gradually been coming down," said Mr. Davies, who added that one reason for this is there has not been a major catastrophe for a while.

In the past six months, property catastrophe reinsurance premiums for Guy Carpenter's major clients have decreased on average 15%, limits have increased 6.5% and retentions have increased 6.5%, said Mr. Megna.

Reinsurers also are prepared to improve conditions in property catastrophe contracts, he said. For example, more reinsurers are prepared to agree to reinstate limits

"Also clients' surpluses are increasing and that increases their comfort level with higher retentions," he said.

As with other reinsurance, ce-

least 10%, maybe more.

See Reinsurers on next page



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Reinsurers

Continued from previous page
for less than 100% of the original premium in the event of a limits loss, Mr. Megna said.

"That is not a universal feature, but it is being looked at in some cases," he said.

The whole nature of the relationship between the reinsurer and the primary insurer has changed, said Albert P. Amato, senior vp at Greenwich, Conn.-based C.L. Frates Reinsurance Intermediary Inc.

During the 1985-'86 hard market, when reinsurers got "burnt," they decided to take on a leadership role and began to "sit there and kind of look over the shoulder of ceding companies on every little thing," he said.

"Now they're retrenching from that leadership position. The ced-

hard market taught everyone that reinsurance is becoming a commodity product."

Shopping around "varies with the buyers," said M&G Re's Mr. Munson.

There are two types of reinsurance buyers, he suggested: Those who will "gamble for stability for what they think are better terms and others who are able to get pretty attractive terms with companies they are comfortable with and expect to be there in the long haul."

At the same time, however, "Nobody's out looking to pay more money," he added.

One sign of the shopping around being done is that more and more broker market business is being shown to direct writers, said Steve Tirney, president and chief operating officer of Philadelphia-based PMA Reinsurance Corp. "Direct writers are competing

'Everybody's got to allocate their resources and make the most out of this, because if you wait around for better times, I think you could run out of runway,' says Mike Bungert.

ing companies are reasserting themselves," said Mr. Amato.

The reinsurers are "just happy to be on some treaties, and why rock the boat with lots of questions? There are still inquiries, but they're greatly reduced," Mr. Amato said.

Consolidation has had no impact on the soft market.

"I don't think it's had any effect at all," said Gill & Roeser's Mr. Bolland.

"Strange to say, the reinsurance market has consolidated in numbers, but the consolidation hasn't taken any capital out of the market, so people still have to leverage the capital," Mr. Bolland explained.

Nobody has merged and said "This is a terrific opportunity to take money out." It just hasn't happened," he said.

Total reinsurance capital in the market has increased rather than decreased, said Mr. Hinkley of TIG. "People are not reducing capital through the mergers. Any reduction has come in the work force," he said.

Consolidation "moves business around," said Kemper Re's Mr. Cooper.

"Whether it's hardening or softening, it's hard to tell," he said.

The revival of Lloyd's returns one more competitor to the fray. "It's aided the softening of the marketplace," said U.S. Re's Mr. Fedor.

"They need to re-establish Lloyd's as a significant force within the marketplace. Part of that is achieved by being competitive."

Lloyd's is back and aggressively looking for business, agreed Mr. Bunea of Constitution Re. "Lloyd's was soft-pedaling for a while, but now it is back in absolutely full swing," he said.

The soft rates for reinsurance are causing a lot of shopping around for low prices.

"In the past you could probably say every three years or so buyers would take a second look at what they buy and what they pay for it," said U.S. Re's Mr. Fedor. "Now, it's more like every year," he said, adding, "It keeps us on our toes."

"There isn't the same long-term commitment," said Gill & Roeser's Mr. Bolland. "I think the

alongside of us on the broker market cover," said Mr. Tirney, who described it as one way of "playing one against the other."

"Most companies, including ourselves, are trying to protect our renewals," observed Mr. Tirney.

"We're trying to deal with the companies that we've dealt with for a long time," and seek growth by doing an increasing amount of business with them rather than by bringing in new business where there is competition from the direct writers, "but even that's becoming hard," he said.

"I think there's a real strong impetus on buyers to buy something other than just reinsurance. They're looking for services, in some cases capital, in some cases other products and services, looking for more out of the reinsurance relationship than just reinsurance, if you will," said Kemper Re's Mr. Cooper.

No one is sure when or if reinsurance rates will harden.

"I think people have got to figure out a way to make money in this market, because it's going to be around a lot longer," at least for the foreseeable future," said Aon Re's Mr. Bungert.

"Everybody's got to allocate their resources and make the most out of this, because if you wait around for better times, I think you could run out of runway," he said.

The next renewal season may see less sharp declines in rates because everyone, including Lloyd's, is already back in the market that they had left or shied away from following Hurricane Andrew in 1992, said Mr. Hynes of Renaissance Re.

"In 1996 you had the re-emergence of the large European reinsurers. Now you have the re-emergence of Lloyd's. In 1998, there will be nobody left to re-emerge," Mr. Hynes said.

"Ultimately, deterioration on pricing will be seen on the bottom line, particularly if there's one or two major catastrophe events in the coming wind season," said Gill & Roeser's Mr. Bolland.

But, he added, "It's going to be interesting after an event to see what ability reinsurers have to increase pricing before people start looking at alternatives." **BI**



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Health

Continued from page 3

"The HMOs are kind of driving the market now," Mr. Erb said, noting that while their pricing has been very competitive in recent years, pressure to keep costs down will probably catch up with them next year.

Flat rates among HMOs in recent years were the reflection of intense competition and margin cutting, noted Tim Willig, a principal and actuary for Towers Perrin in New York. "There's only a finite amount of time you can do that," Mr. Willig said. He predicted premium increases in general for managed care would stay at 4% to 6% for the next two years.

"There are a lot of factors (why costs are increasing)," said Dar Hoemke, a vp of marketing and sales at PacificCare of California in

Cypress, Calif. "Mainly it's a catch-up component. Most health plans from the start were offering big decreases on rates, and now it's catching up.

"People are now saying, 'We can't make it; we have technology, employees.' They're basically saying we need to get some more revenue," Mr. Hoemke said. "So there were three or four years of less-than-responsible financial management, and now we have to make up for it. Also, there are some things occurring: an aging population, pharmacy costs and technology."

Richard Sinni, director of health care management for Buck Consulting Group in New York, said that depending on the size of the employer, HMOs are trying to raise rates 2% to 6% during midyear renewals, with reports of some individual rate increase attempts of 11%. Larger clients

have been able to negotiate premium hikes down to 2.5% to 3%.

Although in the past two to three years HMOs have kept increases to a minimum to maxi-

mize market share, "I think now they're trying to make up some of that lost profit they expected," Mr. Sinni said. "This year, everybody is coming back with increases. Most of the vendors are experiencing higher trends."

'We see PPO programs that are extremely competitive now with heavily managed care programs,' says Richard Allen. 'Those big differences are gone.'

Among other health plan types, Mr. Sinni sees traditional indem-

es. He predicts increases in rates will remain about the same during the next year.

Richard Allen, president of New York-based benefits consultant and broker American Corporate Benefits Inc., said HMOs have raised rates 5% to 8% this renewal season. And, among managed

care options, HMOs no longer are always the most attractive, he said.

"We see PPO programs that are extremely competitive now with heavily managed care programs," Mr. Allen said. "Those big distinctions are gone."

Around the country, many of the factors that are driving premium increases are also creating regional price hike disparities.

"There are major geographic differences," said Jack Doerr, national group benefits practice leader at Sedgwick Noble Lowndes in Chicago. "There are parts of the country that are much more costly (to cover), and these tend to be the big urban areas, whereas the rural areas are less expensive."

"A lot depends on the area or what part of the country you're talking about," Mr. Lynaugh said. In California, for example, doctors have been "sophisticated and aggressive for a long time," in negotiating contracts with HMOs. On the East Coast, as well, hospitals have proven to be particularly sophisticated at negotiating their arrangements with health care organizations.

South Florida, California and New York seem to be particularly ahead of the pack in terms of doctors' increased skill at negotiating contracts with managed care organizations, "and price increases are responding accordingly," Mr. Erb said.

Not everyone agrees prices are on the way up, however. Ken Jacobsen, a senior vp and national health care practice leader at The Segal Co. in New York, takes what he admits is an optimistic approach.

"Employers are beginning to focus on quality, but for today, price is still the bottom-line issue," Mr. Jacobsen said. "HMOs know that if they are to retain and increase membership, they need to keep costs down. I'm optimistic that we'll see reasonable increases."

At the same time, he conceded there are economic forces at play limiting HMOs' options. "There is pent-up financial strain on HMOs," he said. "There are too many things in there that would say we should expect higher cost increases than we've seen in the last three years, but I like to be optimistic."

But Mr. Erb believes HMOs options are limited. "I don't see the HMOs trying to ratchet back their expenses in the next two or three years, which is why I think they're going to go for price increases."

"They think employers would rather go through price increases than go through another round of employee phone calls," he said. "I just don't see HMOs right now with their image problems in the marketplace looking to ratchet down access."

NYLCare's Mr. Lynaugh said "some insurers may definitely hang back to get the business," but that business will be "bought at a very high price."

His company has begun "to put the price increases through to match what we're seeing on the cost side," he said. Most of NYLCare's employer clients "seem to be trying to find a middle ground between understanding the price increases—although obviously not very happily—and trying to cut around the edge of the benefits to ameliorate the cost increases."

For example, Mr. Lynaugh said he sees some employers going with higher deductibles in indemnity health plans, to \$500 annually per family from \$100 or \$200 per year, or increasing the copay-

See Health on next page

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Health

Continued from previous page
 ment on pharmacy benefits to \$10 or \$15 per prescription from \$5.

Some employers are hoping the apparent acceleration in price increases is not an omen for the future, but it would be prudent to expect significant and predictable increases each year for the next four to five years, said Pat Boughey, senior vp of Aon Consulting in Chicago.

"I think they (buyers) would like to think it's not the end of an era, it's just a change in direction," he said.

But there is no reason for buyers to panic, said Towers Perrin's Mr. Willig, if they view the market realistically, anticipating neither a drastic hike in insurance rates nor the low increases of recent years. "We've spent a lot of work with clients just setting their expectations at an appropriate level this year and next year," Mr. Willig said.

Fred Hamacher, vp of compensation and benefits for Minneapolis-based Dayton Hudson Corp., said he is projecting next year's costs for his company's predominantly managed care health benefit programs based on a 4% to 5% cost increase for Dayton Hudson's plans. He added that employees will bear part of any increased costs.

"We always end up passing some through. Employees pay a portion of the cost; we pay a portion of the cost," Mr. Hamacher said.

For now, Stamford, Conn.-based Xerox Corp. is projecting its health care costs to remain flat, said Helen Darling, the company's manager of health care strategy and programs.

"While health plans would all like to get more money, there are plenty of purchasers who still feel there's money in the systems and don't feel they should have to pay much more," Ms. Darling said. "There is slack in the systems, but in some instances, there are fairly good profits and earnings, and a lot of growth."

Emma Hoo, a senior project manager with the Pacific Business Group on Health in San Francisco, said the 20-employer coalition has negotiated for 1998 a net increase of 1% in premiums in California and a 3% increase in Arizona, where the coalition was negotiating for the first time (BI, June 23).

"We've been able to keep the rates down better than others," Ms. Hoo said.

The PBGH, which began negotiating with HMOs in 1994, brought rates down 9% for 1995, 4.3% for 1996, and kept them flat for 1997.

Randy Abbott, eastern region practice leader for health care consulting at Watson Wyatt Worldwide in Little Falls, N.J., noted there's always room for employers to negotiate with their health plan vendors.

"What we're finding is what the managed care plans or carriers come in with is definitely not what they are willing to settle for," he said.

"The informed consumer who knows what he's doing will not see those (high) increases," Mr. Abbott said. And, employers are becoming smarter consumers, he said, learning the issues facing the managed care world in their region by participating in round-tables and coalitions. "Nobody pays sticker price," he said.

If premium increases do become a multiyear pattern, employers may respond in various ways.

Passing on a portion of the increased costs to employees is "probably all we'd do year-one," Dayton Hudson's Mr. Hamacher said. "If we get three or four years

flat."

Segal's Mr. Jacobsen said companies, especially larger companies, should think about joining purchasing coalitions. Such coalitions

might be the most dramatic view, an opinion he bases on the combination of employers' reaction to the coming health care cost increases and the "empowerment of consumers" that has been promoted through medical savings accounts and open-access programs.

What some employers are beginning to tell their employees, Mr. Lynaugh suggests, is "Control your own health."

"The interesting parallel to me is what's happening in the 401(k) world," he said. "I think that same thing is going to start happening on the health care benefit side."

In that 401(k) sort of model, Mr. Lynaugh said, benefit consultants may emerge as the health care plan administrators. Insurers and HMOs, meanwhile, will seek to be listed as the plan offerings among which employees can choose to spend the health care dollars their employers provide, just as they

choose how to allocate retirement benefits among the investment funds offered in their 401(k) plans.

"That will be the next big trend," Mr. Lynaugh said. "And it's lurking just below the surface now. Once you get beyond an HR department not liking that for control and power reasons, it makes all the sense in the world (for an employer). Because you can't get blamed for what you're not part of."

Whatever reaction a new round of health care cost increases might provoke from employers, most of them are constantly seeking to tweak their health benefit plans regardless of the market, Mr. Hamacher said.

"One thing about health care: You never rest," he said. "Too many people get lulled into thinking they've fixed it, and they haven't come close to fixing it yet."

'We've spent a lot of work with clients just setting their expectations at an appropriate level this year and next year,' says Tim Willig of Towers Perrin.

in a row, then I might say, 'Alright, what are we going to do now?' If it's a one-year uptick, I'm not going to do anything yet.

"Of course we're always looking at ways to improve the efficiency and get better value. But I did that even when cost increases were

tions can cut two- to three-year deals with health plans incorporating performance guarantees, he said. Coalitions can be a good way of forming a working relationship with the program and mitigating cost increases.

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JULY

JULY 14-18. Fundamentals of Employee Benefits Management course in Brookfield, Wis., sponsored by The International Foundation of Employee Benefit Plans; \$1,275 for members, \$1,625 for non-members. **Also Aug. 18-22 and Sept. 22-26.** Registrations Department, IFEBP, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6710, ext. 8257.

JULY 15. New Guidelines Under the Health Insurance Portability and Accountability Act of 1996 educational outreach program in St. Louis, sponsored by the U.S. Department of Labor's Pension and Welfare Benefits Administration and the International Foundation of Employee Benefit Plans; \$125 for one-day program, \$200 for two-day program. **Also July 9-10** in San Francisco, **July 22** in Chicago, **July 29-30** in Tarrytown, N.Y., **Aug. 4-5** in Cincinnati, **Sept. 9** in Boston. IFEBP, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6710, ext. 8257.

JULY 15. Pension Simplification and DC Plan Workshop in Chicago, sponsored by Corbel; \$305. **Also July 17** in Columbus, Ohio. Corbel, P.O. Box 47720, Jacksonville, Fla. 32247; 800-326-7235, ext. 1135.

JULY 16. Professional Liability—Healthcare seminar in Orland Park, Ill., sponsored by the Insurance School of Chicago; \$110. Insurance School of Chicago, 175 W. Jackson Blvd., Suite 2200, Chicago, Ill. 60604; 312-427-2520.

JULY 17. Administering the Family and Medical Leave Act course in Springfield,

Ill., sponsored by the Illinois Chamber of Commerce-Center for Business Management; \$125 for members, \$165 for non-members; Center for Business Management, The Illinois Chamber, Department 77-3172, Chicago, Ill. 60678-3172; 800-621-4220.

JULY 20-23. National Symposium on Workers' Compensation in New Brunswick, N.J., sponsored by the Center for Management Development of Rutgers University; \$595. Center for Management Development, Rutgers, P.O. Box 5062, New Brunswick, N.J. 08903-5062; 908-445-5639.

JULY 21-23. Latin American Insurance: Market Development & Growth Strategies for P/C, Life & Reinsurance Markets conference and workshop in Miami, sponsored by the World Research Group; \$1,695 for the conference and workshop, \$1,295 for the conference only. World Research Group, 1120 Ave. of the Americas, Seventh Floor, New York, N.Y. 10036; 800-647-7600 or 212-869-7231.

JULY 21-23. Selling Physical Therapy and Occupational Rehabilitation Services in the Workers' Compensation Market seminar in Chicago, sponsored by Work Injury Management News & Digest and Advantage Health Systems Inc. \$695. Work Injury Management, 8704 Bourgade, Lenexa, Kan. 66219-1400; 888-621-2382.

JULY 22-24. The 17th Annual National Workers' Compensation and Occupational Medicine Seminar in Cape Cod, Mass., sponsored by S.E.A.K. Inc.; \$525. Steve Babitsky, S.E.A.K. Inc., P.O. Box 729, Falmouth, Mass. 02541; 508-540-8304.

JULY 24-25. Policies & Controls to Ensure Effective Risk Management confer-

ence in New York, sponsored by the International Business Communications Group P.L.C.; \$1,295. IBC USA Conferences Inc., 225 Turnpike Road, Southborough, Mass. 01772-1749; 508-481-6400.

JULY 27-30. Professional Insurance Marketing Assn. 1997 summer conference in Napa Valley, Calif., sponsored by PIMA; \$675 for member and family, \$825 for prospective member and family. PIMA, 4733 Bethesda Ave., Suite 300, Bethesda, Md. 20814-5228; 301-951-1260.

JULY 28-30. The 3rd Annual Catastrophe Protection Summit in New York, sponsored by Insurance Advisory Council: A division of International Quality & Productivity Center; \$1,295. International Quality & Productivity Center, 150 Clove Road, P.O. Box 401, Little Falls, N.J. 07424-0401; 800-882-8684.

JULY 28-31. Essentials of Public Sector Benefits Management seminar in Brookfield, Wis., sponsored by International Foundation of Employee Benefit Plans; \$1,100 for members, \$1,300 for non-members. Registrations Department, IFEBP, P.O. Box 69, Brookfield, Wis. 53008-0069; 888-334-3327 or 414-786-6710, ext. 8257.

JULY 29-30. Quantifying Savings in Integrating Disability Management in Workers' Compensation & Group Health conference in Chicago, sponsored by National Managed Workers' Compensation Institute; \$1,295. Conference Administrator, Global Business Research Ltd., 151 W. 19th St., 8th Floor, New York, N.Y. 10011; 212-645-4226.

JULY 31-AUG. 1. Integrating Risk Management & Workplace Safety conference in Boston, Mass., sponsored by Executive Risk Institute/Institute for International

Research; \$895. IIR, 708 Third Ave., 4th Floor, New York, N.Y. 10017-4103; 800-999-3123.

AUGUST

AUG. 3-6, 7-9. Ergonomic Analysis of the Workplace workshop in Las Vegas, sponsored by Work Injury Management News & Digest and Advantage Health Systems Inc.; Before July 3: \$695 for section one, Aug. 3-6; \$395 for section two, Aug. 7-9; \$995 for both sections. After July 3: \$795 for section one, \$495 for section two, \$1,095 for both sections. Prerequisite required for section two. Work Injury Management, 8704 Bourgade, Lenexa, Kan. 66219-1400; 888-621-2382.

AUG. 5. Property & Casualty Licensing six-day course in Danielson, Conn., sponsored by the Independent Insurance Agents of Connecticut; \$400 for members/associate members; \$725 for non-members. **Also Aug. 12, 19 and 26 and Sept. 2 and 9.** IIAC, 30 Jordan Lane, Wethersfield, Conn. 06109; 800-842-2208.

AUG. 6. Life & Health Licensing five-day course in Wethersfield, Conn., sponsored by the Independent Insurance Agents of Connecticut; \$350 for members/associate members; \$450 for non-members. **Also Aug. 13, 20 and 27 and Sept. 3.** IIAC, 30 Jordan Lane, Wethersfield, Conn. 06109; 800-842-2208.

AUG. 7-8. Alternative Risk Financing Market: Innovative Sales & Marketing Strategies to Remain Competitive conference and workshop in Chicago, sponsored by IBC USA Conferences Inc.; \$1,295 for the conference only, \$695 for the workshop only, \$1,695 for both events. IBC USA Conferences Inc., 225 Turnpike Road, Southborough, Mass. 01772-1749; 508-481-6400.

AUG. 7. An Introduction to Daily Valuation and Recordkeeping seminar in Columbus, Ohio, sponsored by Corbel; \$305. **Also Aug. 12** in Los Angeles. Corbel, P.O. Box 47720, Jacksonville, Fla. 32247; 800-326-7235, ext. 1139.

AUG. 7. The Pension Seminars Series: ERISA Update in Honolulu, sponsored by Accountant's Education Services; \$200. **Also Oct. 20** in Tampa, Fla., **Nov. 6** in Washington, **Nov. 20** in Minneapolis, **Dec. 8** in Denver. AES, 1900 Olive St. #F-102, Denver, Colo. 80220; 800-426-8802.

AUG. 8. The Pension Seminars Series: 401(k) Seminar in Honolulu, sponsored by Accountant's Education Services; \$200. **Also Sept. 26** in Chicago, **Oct. 21** in Tampa, Fla., **Nov. 7** in Washington, **Nov. 21** in Minneapolis, **Dec. 9** in Denver. AES, 1900 Olive St. #F-102, Denver, Colo. 80220; 800-426-8802.

AUG. 10-13. American Risk & Insurance Assn. annual meeting in San Diego, sponsored by the ARIA; Before Aug. 1: \$145 for members, \$180 for non-members, \$72.50 for students or retirees; after Aug. 1: \$170 for members, \$205 for non-members, \$102.50 for students or retirees. ARIA, c/o Chase Communications, P.O. Box 9001, Mount Vernon, N.Y. 10552; 800-951-2020 or 914-699-2020.

The Datebook is compiled from notices sent to Business Insurance. Notices should be sent to Business Insurance. Notices should be sent to Business Insurance, 740 N. Rush St., Chicago, Ill. 60611-2590. Please include the cost, if any, to attend the meeting and information on registration for interested readers. Business Insurance reserves the right to select meetings of most interest to its readers and cannot guarantee that notices will be printed.

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Brokers applaud license clearinghouse bill

House committee's action draws RIMS endorsement, NAIC opposition

By MARK A. HOFMANN

WASHINGTON—A legislative proposal to create a national clearinghouse for insurance broker licensing could make brokers more efficient in serving their clients.

According to proponents of the idea, it would enhance competition by making it easier for agents and brokers to operate on an interstate basis, cut overhead expenses by reducing the amount of time and effort that must be devoted to meeting hundreds of often duplicative state licensing requirements, and make products more readily available in more states.

Creation of the clearinghouse, which would be run by a new National Assn. of Registered Agents & Brokers, is called for in the Financial Services Competitiveness Act, H.R. 10.

The proposal already is receiving a favorable response from the Risk & Insurance Management Society Inc. in New York.

"To the extent that it would make the marketplace more efficient, we would be all for it," said Paul Brown, RIMS' director of government affairs in Washington. Mr. Brown noted that RIMS had supported a similar though not identical proposal offered as part of federal solvency legislation a few years ago by Rep. John Dingell, D-Mich.

"From a buyer's angle, the issue is efficiency in the marketplace. Anything that creates greater uniformity in licensing should produce cost savings," said Barbara Haugen, senior vp and director of federal affairs for the National Assn. of Insurance Brokers in Washington, which supports the NARAB proposal.

"When you're trying to do business for a client with interstate business, it's very inconvenient not being able to move smoothly across those borders," she said.

"The primary reason is probably to open competition in the majority of states, where it becomes burdensome to become licensed," said Andrew Cassidy, executive vp of Early, Cassidy & Schilling Inc., a Bethesda, Md.-based brokerage. Mr. Cassidy also is chairman of the Washington-based Council of Insurance Agents & Brokers' Legislative Committee.

"By easing a broker's ability to do business within a state, it allows those brokers to bring those products that they sell into that state," said Mr. Cassidy.

Under H.R. 10, membership in NARAB would be open to all state-licensed agents and brokers that meet the new voluntary organization's membership criteria. Criteria, such as completion of continuing education, would be based on the highest standards currently in the marketplace. NARAB would be overseen by a board of directors, the majority of which would be state insurance regulators.

NARAB would not issue a federal insurance license but would streamline the licensing process by devising uniform licensing requirements. It would allow agents and brokers to obtain the licenses for each of the states in which they want to do business from one source.

States would continue to receive licensing fees, which NARAB would collect. In turn, NARAB members would be exempt from state residency requirements, du-

plicative continuing education requirements and state countersignature laws. States also would be expressly forbidden from imposing any requirements on NARAB members that would run counter to NARAB criteria.

H.R. 10 won the approval of the House Banking Committee late last month. It also must be approved by the House Commerce Committee before going on to the full House.

It does, however, face significant opposition from the National Assn. of Insurance Commissioners. In a June 17 letter to Banking Committee Chairman Jim Leach, R-Iowa, on behalf of the NAIC, Kentucky Insurance Commission-

er George Nichols III said the proposal "would essentially create a federal license."

Mr. Nichols, who chairs an NAIC committee on banks and insurance, also said the proposal is "entirely inconsistent" with the McCarran-Ferguson Act, which gives states the right to regulate the business of insurance.

Not surprisingly, the Council of Insurance Agents & Brokers disagrees.

"It is not a federal license; it is a clearinghouse for multistate licenses," said Joel Wood, vp-government affairs for the Council, which has been the most vocal proponent of NARAB. Mr. Wood pointed out that potential mem-

bers still would have to obtain state licenses before joining NARAB. He also pointed out that NARAB's board would be dominated by insurance regulators nominated by the NAIC. States also would still get their fees and retain the right to discipline producers.

"If a state ever wants to discipline you, you are still subject to genuine consumer protection statutes," said Mr. Wood. "We're trying to make it fit with state insurance regulation."

Mr. Wood added that the proposal would assure that NARAB members meet the highest possible professional standards.

"The statute requires, while it

does not spell out any of the specific standards, that the professional standards are to be higher than that of any state," he said.

From a buyer's standpoint, that would be important, said Mr. Wood. "There is an inherent Good Housekeeping Seal of Approval in this."

Mr. Wood also stressed the potential savings. "Every brokerage firm has full-time staff people dealing with the hassle of state insurance filings." That creates unnecessary costs for consumers, and NARAB would cut down on "the needless hoops and paperwork that are so counterproductive."

Mr. Wood also pointed out that even if it won congressional approval, NARAB would not come into being if the majority of states adopt uniform licensing standards within three years of the effective date of any legislation that creates NARAB.

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FIRST STATE

Free medical help available to traveling workers

WARREN, N.J.—Free medical assistance while traveling is now available to foreign workers enrolled in the Chubb Corp.'s voluntary workers compensation program.

U.S. citizens and foreign nationals employed by U.S. companies can get 24-hour travel help through Medex Assistance Corp., a travel assistance company, whose toll-free number is listed on the back of cards provided by Chubb. Operators can help in several languages.

The service, an addition to Chubb's comprehensive foreign voluntary workers compensation product, can help set up hospital admissions; coordinate payment to providers; get blood, vaccines and medications; and transport relatives to a sick or injured em-

Products & Services

ployee.

Medex also provides non-emergency assistance, such as replacement of travel documents and referrals to a lawyer abroad.

For information, contact Joseph Ptaszynski, assistant vp of Chubb & Son Inc., 908-903-3499.

Living will program

WESTFIELD, N.J.—A program that gives hospitals immediate electronic access to patients' living wills is available from U.S. Living Will Registry.

The service, which can be offered by health insurers and managed care networks as a benefit,

permits members to file living wills indicating when and how they want to forgo life-sustaining treatment.

To use the service, the hospital calls a central toll-free number, enters a hospital identification code, an access code and the patient's Social Security number. A living will document is faxed automatically to the hospital.

The service is intended, among other things, to deliver the patient's wishes to the hospital speedily and efficiently and to save the hospital and managed care network the expense of extraordinary medical measures the patient does not want.

Clients confirm once a year that their living will is correct and may change the original document, which is stored by computer scanner at the registry's offices.

For more information, contact Dr. Joseph Barmakian, president, 888-LIV-WILL.

Vision plan offered

NEW YORK—A vision care group insurance plan with flexible benefits and an extensive network of providers is now being offered by The Guardian Life Insurance Co. of America.

The plan is available to companies with at least 10 eligible workers and can cost as little as \$1 per month per employee, the company said.

A preferred provider network,

the program is managed by Vision Service Plan, the nation's largest eye care plan, and offers about 22,000 provider locations. Coverage includes eye exams with varying copayments and generally includes lenses, frames and contact lenses.

For information, contact Guardian agents, independent brokers, or Guardian at 800-662-1006.

401(k) disability plan

DANBURY, Conn.—A 401(k) plan disability completion product is now available from Corporate Compensation Plans Inc.

The plan continues payments into a disabled employee's 401(k) account when an event threatens to cause the loss of retirement income. Loss of 401(k) plan income is not covered by basic group long-term disability plans.

The completion coverage replaces the amount of money the employee would have put into the plan, as well as the employer match, if the employee is incapacitated.

Premiums may be paid by the employer as increased contributions to the plan, by the employees from their 401(k) plan accounts, or a combination of these.

For information, contact Steven S. Zeiger, director of marketing, 213-792-7300.

Non-profit coverage

BOCA RATON, Fla.—A program to supply one-stop comprehensive insurance coverage to non-profit agencies has been introduced by Target Insurance Services.

Underwritten by Wausau Insurance Cos., the new ServusCare line of products allows non-profit customers to buy all their insurance from the same source. Target, a subsidiary of Target Capital Management L.L.C. of Boca Raton, Fla., specializes in coverage for non-profits.

Among available products are incidental medical malpractice, directors and officers liability, and workers compensation.

For information contact Janice Collins, assistant vp, 888-696-2600, ext. 229.

Railroad package

HARTFORD, Conn.—An insurance package for manufacturers, contractors and wholesalers that do business with the railroad industry is available from The Hartford Group through Poe & Brown Inc. of Tampa, Fla.

The Railroad Protector Plan offers a range of coverage—workers compensation, general liability, umbrella, automobile, property, marine, crime and bond—in the admitted market.

The program is intended to supply difficult-to-find coverage from a single insurer and was introduced as a result of the federal Stagger Rail Act, which increased the number of new railroad companies and opened the market to innovative insurance products.

Liability coverages include completed operations, railroad protective, design errors and omissions, product withdrawal expenses operations, limited pollution, and aggregate coverage. Umbrella coverage is available up to \$25 million.

For information, contact Tom Williams, vp and program manager, at Poe & Brown, 800-2282-0593.



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INTERNATIONAL

Legislation paves way for Kazakh pension reforms

By MARIA KIELMAS

ALMATY, Kazakhstan—Pension reform legislation approved recently in the Republic of Kazakhstan would clear the way for privately funded pension plans and help reduce the massive debt of the nation's social security system.

Under a government bill passed by the Kazakh Parliament last month, employers would have to contribute portions of workers' salaries to the state fund as well as individual, privately managed pension funds.

But, much of the reform remains unclear, including whether workers would have to begin contributing to the pension funds and how much employers' costs would rise.

Kazakhstan's current pension system requires employers to contribute 25% of a worker's wages into the state social security system. Employees currently do not make any pension contribution.

"Even if the allocation is split between employee and employer, the result is that

the cost would be paid by the employer. Employers here negotiate net take home pay, so they would have to pay a higher gross salary," said Jonathan Muir, senior tax consultant at Ernst & Young in Almaty,

'Even if the allocation is split between employee and employer, the result is that the cost would be paid by the employer,' says Jonathan Muir.

Kazakhstan.

Other provisions of the reform bill call for reducing benefits guaranteed under the former Soviet system, which kept the cost of living low, and extending the retirement age to 60. Most Kazakh workers retire in their 50s.

The legislation has provoked much opposition and public protest during the past year, and Kazakh President Nursultan Nazarbayev has not yet signed the bill. If signed, the bill would take effect in 1998.

Reform is necessary, however, because the Kazakh pension system is in arrears by nearly \$500 million, observers say.

"In many former centrally planned economies in Central Asia, Mongolia and Indochina, social benefits inherited from previous governments cannot be met with current resources," says Peter Sullivan, vp at the Asia Development Bank, which is based in Manila, Philippines.

The ADB is planning to grant Kazakhstan a \$100 million credit to implement pension reform, though details have yet to be worked out. The offer of this loan was made during a May visit to Kazakhstan by Mr. Sullivan and his team. In common with other multilateral institutions such as the World Bank and Interamerican Develop-

See Pensions on next page

Global Briefs

The Copenhagen Reinsurance Co. Ltd. of Denmark is restructuring its international operations, converting its subsidiaries in the United Kingdom and Singapore into branch offices. Copenhagen Re already has a branch office in Australia, as well as a representative office in Chile. Leif Corinth-Hansen, group managing director, said the changes will show Copenhagen Re is "moving with the times." Converting the subsidiaries to branch offices will enable them to benefit from the parent company's financial security, though the proposed changes are subject to the approval of local insurance regulators.

The Imperial Fire & Marine Reinsurance Co. Ltd. and Skandia International Insurance Corp. have been elected to membership in the Institute of London Underwriters. The ILU decided that a Standard & Poor's rating of BBB or above, or the equivalent from another rating agency, will be a requirement of ILU membership. ILU also announced other changes in membership requirements. The organization will not require parental guarantees for new applicants, and parental guarantees will not be required for current members on any business written from the beginning of this month.

Skandia International has been downgraded in its claims-paying ability by S&P to BBB+ from A-, primarily because of its "relatively modest position" within the international reinsurance sector. But S&P upped the claims-paying ability rating of Skandia International Insurance Co. Ltd. to A from A-. S&P said its decision was based on "the continued enhancement" of Skandia's business position and its improved capitalization and debt leverage.

Lloyd's of London has appointed Christopher Turner as its general representative for Belgium. Mr. Turner, who is head of development and operations for Europe and Central and South America at Lloyd's, takes over from Peter Lane, managing director of the Lloyd's North America business unit based in New York. Lloyd's has set up a sixth business unit to handle its aviation adjusting services. Lloyd's Aviation, which provides adjusting and related services to insurers worldwide, will be chaired by aviation underwriter Terry Pitron. Chicago-based broker Aon Corp. has restructured its London operations into Aon Risk Services Ltd., incorporating U.K. insurance brokering and risk management operations, and Aon Group Ltd., encompassing reinsurance and specialty business. Its most recent purchase, Minet Ltd., is still to be assimilated into the Aon structure.

London-based loss adjuster Ellis & Buckle Holdings Ltd. has bought 20% of the shareholding of Athens-based adjuster Panas & Co. Ltd. and added it to Ellis & Buckle's global network. Panas & Co. covers business in Greece, Turkey and Cyprus.

U.K. insurer Royal & Sun Alliance Insurance Group P.L.C. has bought AMEV General Insurance Co. Ltd., the Irish non-life subsidiary of Belgian financial services company Fortis Group, for about £12 million (\$19.9 million). The purchase is subject to regulatory approval. New York-based insurer Reliance Group Holdings Inc. is looking to increase its activity in China following the signing of a letter of intent between itself and property/casualty insurer Huatai Property Insurance Co. of Beijing. In return for helping Huatai with training and developing new products, Reliance anticipates it will reinsure a "substantial proportion" of those products.

Sun Life Provincial Holdings, a division of Paris-based Union des Assurances de Paris until its merger with AXA S.A., is to acquire U.K.-based AXA Insurance, the AXA subsidiary, for £70 million (\$116 million) in the form of 22.8 million Sun Life ordinary shares, AXA-UAP announced. The acquisition is part of a strategy to bring together the U.K. holdings of both AXA and UAP after their merger this year.

Electronic insurance network launched amid promise of savings

By SARAH GODDARD

LONDON—Cost reductions and improved client service are vital if the insurance industry wants to remain competitive, says the first chairman of the World Insurance Network.

Speaking at last week's official launch of WIN, an electronic data exchange system for insurance transactions, Chairman Dennis Mahoney marveled that four of "the fiercest competitors"—the brokers that set up the initiative—had cooperated for almost two years to get the project off the ground.

The WIN initiative is vital to the insurance industry, said Mr. Mahoney, who also is deputy chairman and chief executive officer of Aon Group Ltd., Aon Corp.'s London-based reinsurance and specialty unit. Last

week, the WIN chairmanship transferred to Ron Forrest, vice chairman of Aon Risk Services Worldwide, the retail brokerage unit of Aon.

"Despite consolidation, repositioning and investment in new (information technology) and re-engineering, our business still remains uncompetitive" with other financial services entities, said Mr. Mahoney. "Traditional brokers and insurers are losing market share despite the fact the overall market is growing."

WIN is intended to help brokers, insurers and reinsurers communicate and conduct transactions electronically.

By developing WIN, the commercial insurance industry will become competitive again with other financial services concerns because WIN will be "the

preferred electronic marketplace for commercial insurance," he predicted.

According to research by WIN, the WINconnect electronic mail system launched last week could lead to huge savings. Courier costs could be reduced by 70%, said Mr. Mahoney. Outgoing fax costs could fall by 50%, while incoming fax costs may go down 30%. In addition, long-distance telephone charges could be reduced by one-quarter, outgoing mail costs could fall 35% and incoming mail costs go down 30%.

"This, of course, is just the first step," said Mr. Mahoney. "WINconnect... is just the starting point and will evolve through continuous improvement and can deliver massive efficiency and productivity benefits."

Richard Wales and David Evans, joint CEOs of WIN, noted that WIN had developed a case study using various academic studies on the implementation of electronic mail systems.

The savings to an insurance department of 517 employees in London that implemented WINconnect and "vigorously reviewed its operations" could amount to 37%, according to the case study. That's a reduction of £500,000 (\$829,350) on its annual courier, mail, fax and phone charges currently running at £1.3 million (\$2.2 million). In addition, other savings would come from using less paper, reduced costs of filing documents, purchasing less office equipment and the "efficiency gains of re-engineering processes."

ICI Australia to appeal judgment in pesticide-tainted cattle suit

By YVETTE HIGGINS and KATE TILLEY

MELBOURNE, Australia—Chemical manufacturer ICI Australia Operations Pty. Ltd. plans to appeal a court's finding of negligence in one of Australia's first class-action product liability suits.

Observers warn that the case, if successful, could prompt attorneys to initiate other class actions against Australian companies. It also will force companies to pay more attention to risk management, an attorney says.

Attorneys for the plaintiffs say the Federal Court's ruling, which involved cattle tainted with an ICI pesticide, could cost the Melbourne, Australia-based company at least \$125 million Australian (\$94 million) in compensation, depending on the size of the class, with some estimates up to \$250 million Australian (\$188 million).

In Sydney late last month, Federal Court Judge Murray Wilcox found ICI

negligent for failing in its "duty of care" toward more than 480 New South Wales and Queensland farmers who fed pesticide-contaminated cotton trash to their cattle from 1989 to 1994, when droughts brought feed shortages.

The pesticide was contained in an ICI-manufactured product, Helix.

Judge Wilcox's decision came after a 19-day hearing in March and April. He will reconvene the case Aug. 4 to hear cross claims by the farmers and ICI against other parties, including cotton gins, cooperatives and transport companies.

An additional hearing is scheduled for Nov. 6, when Judge Wilcox will consider the amount of damages to be paid by parties found liable.

The New South Wales and Queensland state governments were joint defendants in the action because of their roles in registering chemicals like Helix, but Mr. Wilcox ruled that they, and a federal agency responsible for chemical over-

sight, were not negligent.

The farmers' claims against the company were first aired in 1995 trial.

The active agent in Helix is chlorfluazuron. When cattle destined for slaughter and the export markets ate the cotton trash, they became tainted with the chemical. That led to canceled export orders from the United States and Japan. Farmers' properties were quarantined, and they were unable to sell cattle for slaughter and export. The United States banned Australian beef shipments in November 1994, when the Helix contamination was discovered (BI, Oct. 16, 1995).

In his 246-page judgment, Judge Wilcox said ICI had breached its duty as the manufacturer, distributor and marketer of Helix in New South Wales and Queensland. He said ICI, in its haste for profits, had "cut research corners and inexcusably suppressed information that might have alerted the dozing public

See ICI on page 57

Services Guide

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Circulation Breakdown Commercial Consumers

Administrative:

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Vice Presidents, General Managers and
Other Administrative Personnel 5,129

Financial:

Chief Financial Officers and Vice Presidents
of Finance 3,166
Secretaries, Treasurers, controllers and
other Financial Personnel 2,973

Risk/Employee Benefits:

Vice Presidents, Directors, Managers, and other re-
lated department personnel of: insurance, risk, em-
ployee benefits, personnel, compensation,
pension, safety, security, industrial relations,
human resources and employee/
labor relations 17,042

Sub-total 30,511

Associations 290

Government, Unions and

Educational Institutions 946

Commercial Consumers

Sub-total 31,747

Insurance Agents and Brokers 8,588

Insurance Companies 7,327

Accountants, Actuaries,

Attorneys & Consultants 2,331

Adjusters, Appraisers, TPA's, Captive Managers

& Health Care Providers 1,524

Others Allied to the Field 966

Total Qualified 53,083

Non-qualified 9

Single Copy Sales 16

TOTAL CIRCULATION 53,108

* Source: Business/Occupational
breakdown of qualified circulation,
November 25, 1996 Issue, as
submitted to BPA for December 1996
BPA Publisher's Statement

INTERNATIONAL

Pensions

Continued from previous page
ment Bank, the ADB is moving
away from its previous policy of
lending money to developing coun-
tries for capital-intensive infras-
tructure projects and concentrating
more on social welfare, environmen-
tal matters and helping to reform
capital markets.

"Our program focus is to meet
some of the costs of an economic
transition," Mr. Sullivan says. "We
are in the early stages of discussing
work with governments."

At present, Kazakh employers pay
25% of an employee's salary into the
state pension fund. The pension law
inherited from communist times,
and that is still in force officially,
stipulates that workers receive an-
nually 25% of their final wages
upon retirement. Pension benefits in
the mining sector are more gener-
ous. Miners with at least 10 years'
experience working underground
may retire at age 50 and receive a
pension up to 75% of their final
wage.

Kazakh Prime Minister Akezhan
Kazhegeldin has said the pension
fund legislation would enable the
state to pay off its pension debt
within six months.

Says Michael Roberts, managing
partner at KPMG Peat Marwick in
Almaty: "The (state's) pension ar-
rears go back at least two years. I re-
ally don't know how some people
manage to live. They must rely on
the family network."

Workers were angry at the pro-
posal to raise the retirement age.
"The average life span here is 61
years. People just don't live that
long," said Mr. Muir.

Protests over the reform began
last August when the Kazakh prose-
cutor general's office reported that
retirees and the disabled had not
been receiving social security bene-
fits owed to them.

In 1992, President Nazarbayev in-
creased pension benefits, but in Au-
gust 1996, the Ministry of Social
Maintenance ran short of money to
pay the pensioners and cut the aver-

age 700 tenge (\$10) monthly pension
by half. At that time, the govern-
ment's estimate of pensions owed to
retirees and invalids was only 7 bil-
lion tenge, or \$100 million.

The current pension debt is \$450
million to \$500 million, estimates
Michael de Bruijn, deputy general
manager of ABN-AMRO Bank
Kazakhstan, a unit of the Nether-
lands-based ABN-AMRO Bank.

Mr. de Bruijn says the average
salary for most workers in Kaza-
khstan is about \$50 per month.

**'I really don't know
how some people
manage to live,' says
Michael Roberts of
KPMG Peat Marwick.**

However, average salaries are \$100
per month for government employ-
ees and about \$600 per month for
employees of foreign companies in-
vesting in oil, mining and infras-
tructure projects in the country.

Kazakhstan lacks a capital mar-
ket system, and Mr. de Bruijn said
the government must draft regula-
tions on how the new pension funds
would be invested. "The only instru-
ment here is local Treasury bills," he
added.

According to ABN-AMRO Bank,
Kazakhstan has the highest gross
domestic product among the former
Soviet republics in Central Asia. The
Kazakh GDP is about \$19 billion.
There is a foreign debt of \$4 billion
and a current budget deficit of 3.5%
of GDP. In April, Deputy Finance
Minister Zhanat Yertilsova sugges-
ted that the government might allow
the budget deficit to rise in an at-
tempt to pay off the pension debt.

The Kazakh private sector ac-
counts for only about 26% of total
employment, making some foreign
executives worry how successful the
new pension plans might be. "Most
of the private companies are those
taken over by foreign firms," says
Mr. de Bruijn. **EB**

WIN

Continued from previous page
Messrs. Wales and Evans foresee a
future where WIN will "become
the industry standard...and
where WIN will reach its pinnacle
as a true value-added network."
This will come about because WIN

**'WINconnect...is just the
starting point and will
evolve through continuous
improvement...,' Dennis
Mahoney says.**

is not a proprietary network, and
it links seamlessly with other sys-
tems. Also, it will evolve alongside
Internet and intranet technology,
they said. WIN is "the backbone
on which software runs"—WIN is
not the software itself, they ex-
plained.

"To harness electronic com-
merce to enable global opportuni-
ties, reduce frictional costs, to be-
come more efficient and encour-
age flexible ways of working
... that's where the future is," said
the incoming chairman, Mr. For-
rest.

The world's four largest bro-
kers—J&H Marsh & McLennan
Inc., Aon Group, Sedgwick Group
P.L.C. and Willis Corroon P.L.C.—

have developed the network.
Johnson & Higgins and Alexander
& Alexander Services Inc. were
involved before they were ac-
quired by Marsh & McLennan and
Aon, respectively.

Together, the brokerages place
more than \$100 billion in gross
premium, said Mr. Forrest, and
they all have committed to using
WIN as their preferred method of
doing business. "We haven't done
this because we're shareholders
but because we know it is the only
way forward," said Mr. Forrest.

Commercial Union Insurance
Co. P.L.C., Royal & Sun Alliance
Insurance Group P.L.C. and
Lloyd's underwriting agency
Brockbank Syndicate Manage-
ment Ltd. have been involved with
WIN during the testing phase.

The next move in WIN's evolu-
tion is the development of WIN-
voice, a voice transmission service
to operate alongside the data
transmission of WINconnect. WIN
also will develop online informa-
tion services and encourage soft-
ware companies to develop prod-
ucts for the network.

"The future of WIN is to create
and maintain the network infras-
tructure for global electronic com-
merce in the insurance industry
and guide that network forward
into the future, with a range of
value-added services," said Mr.
Wales. "We will enable our indus-
try to keep up to date and take ad-
vantage of the opportunities of-
fered by evolving technology." **EB**

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INTERNATIONAL

ICI

Continued from page 55
watchdog. As a result... many people suffered losses."

Judge Wilcox also characterized ICI's failure to research the effects of Helix on livestock was a case of "willful blindness."

Judge Wilcox has not yet determined whether ICI also will be responsible for paying the farmers' legal costs, nor did he set damages, saying that had not yet been investigated.

"Each individual claimant is entitled to recover damages against ICI in respect of any losses... he or she may have sustained by reason of its negligence," the judge said.

Judge Wilcox added that the claimants are not entitled to "exemplary" damages because there "must be something more than mere negligence, however gross."

He found that while ICI was negligent, thoughtless and lacked professionalism, there was "no deliberate action... to disregard anyone's rights."

The farmers also took action against a federal government body, the Technical Committee on Agricultural Chemicals, which was responsible for approving use of the chemical. Judge Wilcox found that while the TCAC "did not assemble the data it needed to make an informed decision" before approving the pesticide, it was not negligent because it owed no duty of care to the cattle farmers. The state agencies named in the suit relied on the TCAC's recommendation, according to court papers.

Judge Wilcox also said a further claim against ICI alleging violations of the federal Trade Practices Act, which prohibits misleading and deceptive conduct, would be determined at a future hearing.

He dismissed the Trade Practices Act action from the plaintiffs to whom he found ICI had been negligent: farmers whose cattle were contaminated, farmers who bought contaminated cattle, meat processors and exporters who owned meat found to be contaminated, and feed lot operators who retained contaminated cattle until they were safe for slaughter and export.

But Judge Wilcox said that other plaintiffs, whom he found were not owed a duty of care, may have a case under the Trade Practices Act.

These plaintiffs include farmers whose cattle were not contaminated but who were not able to export meat because of the ban, transport companies, cotton trash pellet suppliers, and slaughterhouse operators

and exporters.

The maximum fine that can be imposed on a corporation for a breach of the relevant section of the Trade Practices Act is \$10 million Australian (\$7.5 million).

Mike Feehan, ICI's corporate affairs manager, said ICI is appealing the judgment because the company, a unit of Imperial Chemical Industries P.L.C. in the United Kingdom, believes the "legal responsibility for the unfortunate chain of events that led to the losses does not lie with ICI."

ICI's Mr. Feehan said the company believed it complied with industry standards and with regulatory authorities' requirements when it sought Helix registration for use on cotton crops.

However, ICI conceded in court that it did not take into consideration the practice of feeding cotton trash to cattle, he said.

ICI maintained, however, that was only because it was not aware of the practice. Before the extreme drought conditions of the early 1990s, the practice was not widespread, and the industry had no basis for foreseeing it, Mr. Feehan said.

But he added ICI was serious about its corporate and environmental responsibilities and had voluntarily withdrawn Helix from the market.

An ICI P.L.C. prospectus for the sale of its 62.4% stake in ICI Australia notes that global coverage for public liability and product liability is \$740 million for the 1996-1997 year for claims made in that year.

Under the sale agreement, the global insurance arrangements will indemnify ICI Australia until June 30, 1998. Under the policy in force for the year ended June 30, 1995, the year in which the Helix claims were made, the coverage limit is \$625 million, with a deductible of \$10,000 per claim or related claims.

David Lyons, ICI's insurance risk manager, said ICI's London-based captive, Ichem Insurance Co. Ltd., and its global reinsurance program would cover any liabilities.

Mr. Lyons said ICI "manages its own insurance," and he would not comment on the company's deductibles, policies or sums insured. But he said ICI would be indemnified "for whatever amount necessary."

According to Peter Thomas, a consultant with law firm Peter Long & Co. in Gunnedah, New South Wales, who represents the farmers, the case could cost ICI more than \$125 million Australian (\$94 million) because more farmers who are eligible to join the class are now coming for-

ward with claims.

Mr. Thomas said about 2,500 farmers who did not participate in the initial class action, and whose cattle were not physically affected, are likely to seek compensation from ICI because the export ban also prevented the farmers from marketing meat overseas.

Another attorney predicted the judgment will encourage Australia's plaintiff lawyers to mount more class actions.

"Perhaps the key message from this claim is that there is a growing band of product liability lawyers and clients who have greater resilience and tenacity than was previously thought," said Jocelyn Kellam, a partner with Sydney-based law firm Clayton Utz. "This does not augur well for manufacturers which fail to implement appropriate risk management strategies and give ap-

propriate product warnings," she noted.

"Although plaintiffs lawyers are often regarded as ambulance-chasers, they obviously pose a threat which manufacturers must take seriously. Class actions pose special challenges. Their particular sting is that the court orders are likely to be publicized. No company wants that," Ms. Kellam said.

The decision will give plaintiffs lawyers confidence and enable them to put more "runs on the board," she said.

"No manufacturers can afford to assume that their size, reputation and resources will deter plaintiffs lawyers from taking them to the wire for products that fail to live up to consumers' expectations of safety," Ms. Kellam added.

Mr. Thomas, the plaintiffs attorney, said ICI offered an out-of-court

settlement with farmers in Narrabri, northern New South Wales, only days before Judge Wilcox delivered his ruling, but the proposal was unanimously rejected as "unworkable and insufficient" because it underestimated the farmers' financial losses.

Mr. Thomas said that ICI's cross-claims against other parties are unjustified.

The cotton gins "are probably no better informed about Helix-sprayed cotton trash than the producers," he said.

Mr. Thomas said the judgment could set the stage for reforms in the agricultural and veterinary industries.

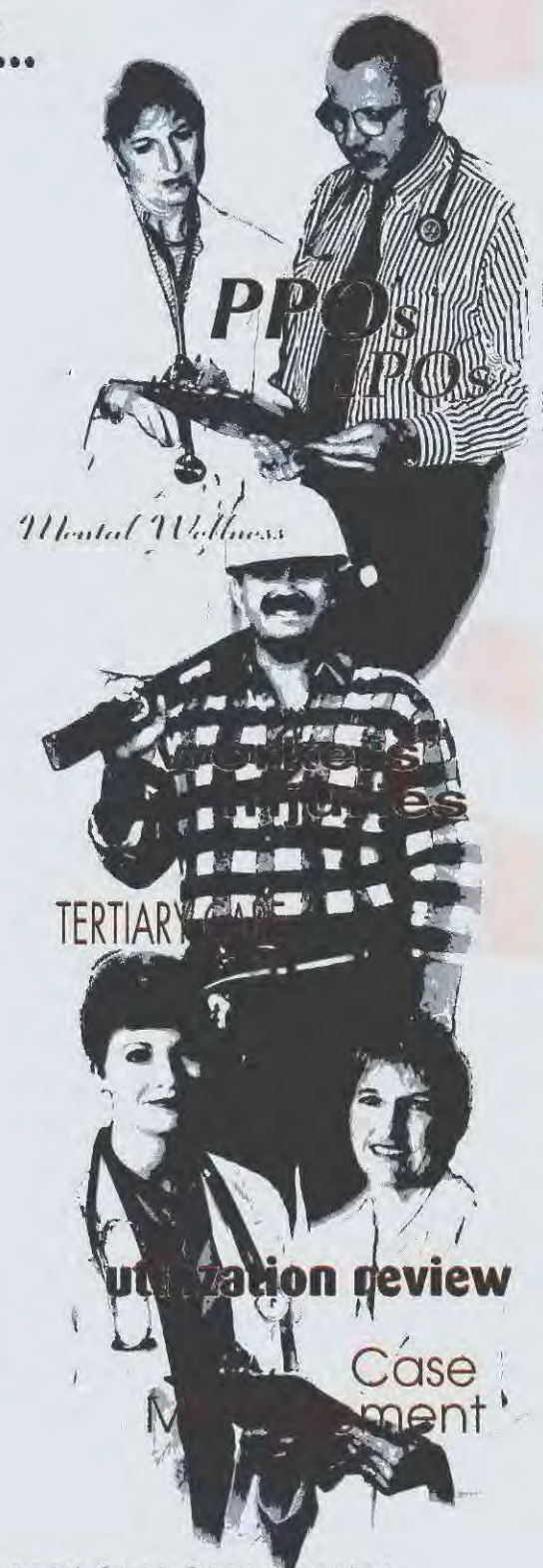
"Obviously this is a landmark decision, and the only representative (class-action) proceeding with findings on product liability issues," he said. **B1**

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LEGAL NOTICE

IN THE CIRCUIT COURT OF COOK COUNTY, ILLINOIS COUNTY DEPARTMENT, CHANCERY DIVISION

IN THE MATTER OF THE LIQUIDATION OF)
RESURE, INC.) NO. 97 CH 01974

NOTICE OF CLAIM FILING DEADLINE AND PROCEDURES

PLEASE TAKE NOTICE, that on February 27, 1997, the Circuit Court of Cook County, Illinois entered an Agreed Order of Liquidation With a Finding of Insolvency against Resure, Inc. ("Resure"). Mark Boozell, Director of Insurance of the State of Illinois, is the statutory and court affirmed Liquidator of Resure ("Liquidator").

TAKE FURTHER NOTICE, that on March 27, 1997, the Circuit Court of Cook County, Illinois, entered an Order Fixing Rights and Liabilities and Providing for the Filing of Claims and Claim Filing Deadlines ("Fixing Order"). Pursuant to the Fixing Order, all rights and liabilities of Resure and its policyholders, creditors and stockholders, and all other persons interested in its property or assets, are fixed as of February 27, 1997, unless otherwise provided in prior or subsequent orders of the Court.

TAKE FURTHER NOTICE, that all persons and entities who have, or may have, claims against Resure, its property or assets, or against a Resure insured or policyholder, shall have the right to present and file with the Liquidator proper proofs of claim on or before February 27, 1998 at 4:30 p.m. (C.D.T.).

TAKE FURTHER NOTICE, that any insured under an insurance policy issued by Resure shall have the right to present and file with the Liquidator a proper proof of claim setting forth a contingent claim on or before February 27, 1998 at 4:30 p.m. (C.D.T.). No contingent claim shall be allowed for purposes of participating in any distribution of estate assets that may be made at the fourth priority level, 215 ILCS 5/205(1)(d), unless such claim has been liquidated and the insured claimant has presented and filed evidence of payment of such claim to the Liquidator on or before March 1, 1999 at 4:30 p.m. (C.D.T.). Any contingent claim for which a proper proof of claim is filed on or before March 1, 1999 at 4:30 p.m. (C.D.T.), but which is not liquidated on or before March 1, 1999 at 4:30 p.m. (C.D.T.), may be estimated pursuant to 215 ILCS 5/209(4)(b) for purposes of participating in any distribution of estate assets that may be made at the fifth priority level, 215 ILCS 5/205(1)(e), unless otherwise directed by the court.

TAKE FURTHER NOTICE, that the form and required contents of all proofs of claim are described in 215 ILCS 5/209. Proofs of claim, along with supporting documents, if any, are to be filed with, and may be obtained from, the Liquidator of Resure, at 222 Merchandise Mart Plaza, Suite 1450, Chicago, Illinois 60654. A proof of claim shall be deemed "filed" with the Liquidator upon the Liquidator's receipt thereof. The Liquidator reserves the right to require such additional information with respect to any claim filed with him as he may deem necessary. The Liquidator further reserves any and all defenses available to Resure upon all filed claims. All proofs of claim must be duly sworn to before an officer authorized to take oaths.

THE LAST DATE FOR THE FILING OF PROOFS OF CLAIM WITH THE LIQUIDATOR IS SET FORTH ABOVE. NO PERSONS OR ENTITIES HAVING OR CLAIMING TO HAVE ANY CLAIMS AGAINST RESURE, OR ITS POLICYHOLDERS, SHALL PARTICIPATE IN ANY DISTRIBUTION OF THE ASSETS OF THE COMPANY UNLESS SUCH CLAIMS ARE PROPERLY FILED WITH THE LIQUIDATOR ON OR BEFORE FEBRUARY 27, 1997 AT 4:30 P.M. (C.D.T.).

Peter G. Gallanis
Special Deputy Receiver

LEGAL NOTICE

LEGAL NOTICE

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IN THE CIRCUIT COURT OF COOK COUNTY, ILLINOIS COUNTY DEPARTMENT, CHANCERY DIVISION

PEOPLE OF THE STATE OF ILLINOIS, ex. rel. MARK BOOZELL, DIRECTOR OF INSURANCE OF THE STATE OF ILLINOIS,

Plaintiffs,

NO: 94 CH 11337

v.

MERIT CASUALTY COMPANY, formerly known as MERIT INSURANCE COMPANY, an Illinois Domestic Stock Property and Casualty Insurance Company,

Defendant.

NOTICE OF CLAIM FILING DEADLINE AND PROCEDURES

PLEASE TAKE NOTICE, that on April 1, 1997, the Circuit Court of Cook County, Illinois, entered an Agreed Order of Liquidation with a finding of Insolvency against MERIT CASUALTY COMPANY, formerly known as MERIT INSURANCE COMPANY. Mark Boozell, Director of Insurance of the State of Illinois, is the statutory and court affirmed Liquidator of Merit Casualty Company.

TAKE FURTHER NOTICE, that on April 15, 1997, the Circuit Court of Cook County, Illinois, entered an Order Fixing Rights and Liabilities and Providing for the Filing of Claims and Claim Filing Deadlines ("Fixing Order"). Pursuant to the Fixing Order, all rights and liabilities of Merit and its policyholders, creditors and stockholders, and all other persons interested in the property or assets, are fixed as of April 1, 1997, unless otherwise fixed in prior or subsequent orders of the Court.

TAKE FURTHER NOTICE, that all persons and entities who have, or may have claims against Merit, its property or assets, or against a Merit insured or policyholder, shall have the right to present and file with the Liquidator proper proofs of claim on or before April 1, 1998 at 4:30 p.m. (C.S.T.).

TAKE FURTHER NOTICE, that any insured under an insurance policy issued by Merit shall have the right to present and file with the Liquidator a proper proof of claim setting forth a contingent claim on or before April 1, 1998, at 4:30 p.m. (C.S.T.). No contingent claim shall be allowed for purposes of participating in any distribution of estate assets that may be made at the fourth priority level, 215 ILCS 5/205(1)(d), unless such claim has been liquidated and the insured has presented and filed evidence of payment of such claim to the Liquidator on or before April 1, 1999, at 4:30 p.m. (C.S.T.). Any contingent claim for which a proper proof of claim is filed on or before April 1, 1998, at 4:30 p.m. (C.S.T.), but which is not liquidated on or before April 1, 1999, at 4:30 p.m. (C.S.T.), may be estimated pursuant to 215 ILCS 5/209(4)(b) for purposes of participating in any distribution of estate assets that may be made at the fifth priority level, 215 ILCS 5/205(1)(e), unless otherwise directed by the court.

TAKE FURTHER NOTICE, that the form and required contents of all proofs of claim are described in 215 ILCS 5/209. Proofs of claim, along with supporting documents, if any, are to be filed with and may be obtained from the Liquidator of Merit at the Office of the Special Deputy Receiver, 222 Merchandise Mart Plaza, Suite 1450, Chicago, Illinois 60654. A proof of claim shall be deemed "filed" with the Liquidator upon the Liquidator's receipt thereof. The Liquidator reserves the right to require such additional information with respect to any claim filed with him as he may deem necessary. The Liquidator further reserves any and all defenses available to Merit upon all filed claims. All proofs of claim must be duly sworn to before an officer authorized to take oaths.

THE LAST DATE FOR THE FILING OF PROOFS OF CLAIM WITH THE LIQUIDATOR IS APRIL 1, 1998. NO PERSONS OR ENTITIES HAVING OR CLAIMING TO HAVE ANY CLAIMS AGAINST MERIT, OR ITS POLICYHOLDERS, SHALL PARTICIPATE IN ANY DISTRIBUTION OF THE ASSETS OF THE COMPANY UNLESS SUCH CLAIMS ARE PROPERLY FILED WITH THE LIQUIDATOR ON OR BEFORE APRIL 1, 1998 AT 4:30 P.M. (C.S.T.).

Peter G. Gallanis
Special Deputy Receiver

Weighing costs, benefits of ergonomics

By JOANNE WOJCIK

CINCINNATI—The jury is still out over the economic value of ergonomics.

Although preliminary results from an Occupational Health & Safety Administration study indicate that the benefits of a federal ergonomics regulation would greatly exceed the costs, that may not be the case for all industries, some researchers say.

For example, the costs of implementing a federal ergonomics regulation would create significant financial hardship for the trucking industry, according to Mark P. Berkman, vp of San Francisco-based National Economic Research Associates Inc.

Mr. Berkman conducted a cost-benefit analysis of a proposed OSHA ergonomics regulation for the American Trucking Assn.

But most cost-benefit analyses of

ergonomics programs—such as that conducted for the ATA—fail to take into account non-occupational injury costs, other experts point out.



work-related injuries are treated in the workers compensation system, pointed out David C. Alexander, president of Auburn Engineers Inc., an occupational ergonomics consulting firm based in Auburn, Ala.

As a result, it's easy for some re-

Often overlooked are such employer costs as replacement worker training, downtime and health benefits, because not all

search to conclude that it would cost more to implement a nationwide ergonomics standard than it would save, he said.

"There's a misperception that ergonomics is expensive," Mr. Alexander observed. "If you wait until after the injury rate is high, it will be. But if you invest in ergonomics early, it will cost a lot less."

Both experts made their remarks during a session on the "Economics of Ergonomics" held during the June 17-20 Managing Ergonomics in the 1990s conference in Cincinnati co-sponsored by the Alexandria, Va.-based Center for Office Technology and the American Automobile Manufacturers Assn.

To illustrate the kind of return on investment an effective ergonomics program can have, another conference speaker shared a client's experi-

Dan MacLeod, director of ergonomics for Clayton Environmental Consultants in Edison, N.J., explained that some of the workers at Crane & Co. Inc. were experiencing hand problems due to threading and tying into bows the tiny ribbons on the corners of wedding invitations.

After discussing the problem with the workers at the paper company's Dalton, Mass.-based headquarters, one of them "invented" a rudimentary tying device using a manila folder, a paper clip and some tape.

While not all ergonomics solutions are that simple, in many cases all it really takes is a little "Yankee ingenuity," Mr. MacLeod said.

Ergonomics is simply "practical, low-tech common sense," he said.

After spending about \$2.5 million on ergonomics solutions, Crane saved \$3.5 million in costs related to treating musculoskeletal injuries over a

five-year period.

"That's a 40% return," Mr. MacLeod estimated. "And many of those costs are fixed costs, so the return will grow even more over time."

By contrast, Mr. Berkman said his analysis of the costs of implementing an ergonomics standard will cost the U.S. trucking industry as much as \$6 billion.

That cost could put interstate commerce at a standstill, he suggested, because many trucking firms are mom-and-pop operations that can't afford the cost of many ergonomic solutions, many of which have yet to be proved.

He suggested more research should be done before a national regulation is designed and implemented.

"A federal standard applied across all industries at the same level wouldn't make economic sense," Mr. Berkman said. **BI**

Ford using data to drive ergonomics strategy

By JOANNE WOJCIK

CINCINNATI—A computerized system developed by Ford Motor Co. to settle Occupational Safety and Health Administrations record-keeping violations may one day be used to help the automaker target ergonomics improvements.

But for now, the multimillion-dollar Health Data Analysis system primarily is used to calculate how much musculoskeletal disorders associated with poor workplace ergonomics are costing the Dearborn, Mich.-based employer.

For example, the system tracks not only medical treatment costs but also the number of days an employee is away from work due to injury. It also links every visit to the company's onsite occupational clinics to the payroll system to allow analysis of injury trends by department and job.

In addition, the system can calculate a cost-per-case by adding together an individual's injury costs and workers compensation benefit payments.

And to ensure ongoing compliance with OSHA record-keeping requirements, the system uses "OSHA log-

ic" to automatically report specific injuries by medical code.

The data collection starts the minute the injured employee arrives at the onsite medical department seeking treatment and continues until he or she returns to full capacity, explained Susan T. Pastula, an epidemiologist at Ford.

Eventually, "what comes out are single-plant or company-wide analyses," she said during a session at a conference, "Managing Ergonomics in the 1990s," co-sponsored by the American Automobile Manufacturers Assn. and the Center for Office Technology June 17-20 in Cincinnati. The Alexandria, Va.-based COT is an association of employers and manufacturers dedicated to improving the office working environment and promoting informed approaches to safety and health issues associated with computers and office technology.

For example, when she asked the system to determine the total cost of Ford's 1995 ergonomics injuries, she found they amounted to \$15 million, or 41% of Ford's total occupational injury costs for that year.

Ms. Pastula selected 1995 as an example because the data has suffi-

ciently matured now that about 80% of the workers compensation cases filed that year have been resolved.

Many workers compensation cases take up to four or five years to close, she explained.



were associated with arm and/or shoulder injuries.

It also found the most expensive injuries were those of the head and neck, while lower back and hip injuries resulted in the most lost work time.

The system also found that back sprains and strains make up 30% of the ergonomics-related disorders at Ford, added Gordon R. Reeve, another corporate epidemiologist who spoke at the conference.

The system, which cost Ford "in

the millions" was developed in response to OSHA record-keeping violations that resulted in fines totaling some \$1.5 million in 1989, Mr. Reeve explained.

"We had a tremendous legal exposure because data collection was highly variable," he said.

Medical directors at each of Ford's 55 production facilities and warehouses, which employ some 100,000 workers collectively, kept records separately with no uniform system to standardize the data, he explained.

Also complicating data collection is the fact that these plants span 16 states, each with different workers comp laws.

Fortunately, with the "OSHA logic" component of the new system, the treating physicians in Ford's occupational injury clinics don't have to know themselves what injuries need to be reported and when, according to Mr. Reeve.

Physicians now report patient information using a personal computer and pulling up a template that gives them prompts to insert information. When that template is saved, the system can automatically send a copy of the report to the per-

son responsible for keeping the OSHA 200 logs.

"OSHA logic is driven by medical codes so that there is less error," he explained.

For example, if a doctor uses any one of eight medical "codes" to describe an injury, it will automatically be reported on the company's OSHA 200 log, he said.

The next step in the data collection process will be to apply the findings to target ergonomics improvements in Ford plants where they will have the most impact, Mr. Reeve said.

With data input beginning in 1990, Ford's Health Data Analysis system will have a wealth of ergonomics data.

Currently the automaker's ergonomics committees—made up of plant management and representatives of the United Auto Workers union—are often pressured politically to make safety improvements.

But this "system makes prioritizing easier" and more pragmatic, he said. "Now the product manager or department engineering manager can use this to show finance managers where they need to make investments in loss prevention." **BI**

Experts dispute 'epidemic' of strain disorders

By JOANNE WOJCIK

CINCINNATI—A 7% decrease in cumulative trauma disorders between 1995 and 1994, reported by the Bureau of Labor Statistics earlier this year, should put to rest any talk of an "epidemic," an employer representative says.

"We don't know why this dramatic decrease occurred, but it reinforces the fact that we do not yet have enough information to impose a standard program on industry at this time," said P.J. Edington, executive director of the Center for Office Technology.

The Alexandria, Va.-based COT is an association of employers and manufacturers dedicated to improving the office working environment and promoting informed approaches to safety and health issues associated with computers and office technology.

Nevertheless, "these encouraging figures should not minimize the importance of these injuries nor the need to continue ergonomics research," Ms. Edington said in a statement released at a recent conference, "Managing Ergonomics in the 1990s," in Cincinnati.

"In fact, more research is vital because current scientific literature does not explain why one employee work-

ing next to another performing the same activities may suffer discomfort or pain from a repetitive motion while the other does not," she said.

Numerous other occupational injury and ergonomics experts speaking at the conference shared Ms. Edington's opinion.

"There isn't any way to predict which worker is at risk to develop a back injury," according to Dr. William Lauerman, associate professor of orthopedic surgery and chief of spine surgery at Georgetown University Medical Center in Washington.

For the most part, musculoskeletal abnormalities detected on X-rays and with magnetic resonance imaging, or MRIs, are not predictive of low-back pain, he said.

"X-rays are overdone," he said. "It would take 2,000 X-rays to have one that materially impacts on treatment decision-making."

Many people have musculoskeletal abnormalities without symptoms while others with pain have no abnormalities.

In addition, 20% of people between the ages of 20 and 40 will have a herniated disk on an MRI, but only a fraction of those will have pain, Dr. Lauerman said.

At the same time, a person with pain may not have a herniated disk at all, he added.

Whether such injuries can definitively be attributed to the workplace also is a subject of much debate.

For example, Dr. Dean S. Louis, professor of surgery at the American Society for Surgery of the Hand in Ann Arbor, Mich., suggested that many so-called cumulative trauma disorders actually are part of the normal aging process.

"There is no proof that work causes disease," he said. "There is a whole host of lifestyle choices that make a person susceptible to injury."

But changes in the way health care is financed in this country are forcing many physicians to say an injury is work-related just so the patient receives adequate treatment, according to Dr. Louis.

Physicians in managed care plans are encouraged to push injuries into

the workers compensation arena to keep group health plan costs down, he said.

And media reports about the growth of cumulative trauma disorders—carpal tunnel syndrome in particular—also are contributing to the "epidemic," Dr. Louis said.

"The psychosocial epidemic called

RSI (repetitive stress injury) occurred in Australia in the early 1980s," he recalled. "Patients who were told they had RSI believed it was a disease and considered their symptoms as something other than the transient aches and pains of daily life. When compensability was denied, the epidemic ceased." **BI**

Broad support for topic

CINCINNATI—"Managing Ergonomics in the 1990s," a conference co-sponsored by the American Automobile Manufacturers Assn. and the Center for Office Technology, is one of the first meetings organized to explore the major issues in the scientific and policy debate confronting the ergonomics community.

Conference cooperating organizations included the American Industrial Hygiene Assn.; American Petroleum Institute; American Trucking Assn.; the Center to Protect Workers' Rights; Chrysler Corp.; Consultants in Epidemiology & Occupational Health Inc.; ErgoWeb Inc.; Ford Motor Co.; Gen-

eral Motors; IBM Corp.; Institute for Ergonomics at Ohio State University; International Union of the United Auto Workers; National Assn. of Manufacturers; National Coalition on Ergonomics; National Institute for Occupational Safety & Health; and Organization Resources Counselors Inc.

A similar event is planned for 1998; the date and place have yet to be decided. For more information, contact the Center for Office Technology, 301 N. Fairfax St., Suite 102, Alexandria, Va. 22314; 703-684-7760; fax: 703-684-4554; e-mail: CtrOfTek@erols.com; or visit its World Wide Web site at: <http://www.cot.org>.

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Why Compromise?

Texas

Continued from page 2

state District Court in Travis County earlier this year on behalf of some Texas employers seeking the refunds.

Insurers received \$718.5 million in refunds from the residual market for the years 1991 to 1994: \$253.9 million for 1991, \$315 million for 1992, \$132.4 million for 1993 and \$17.2 million for 1994.

Under the proposed rule, the Insurance Department would develop a formula to calculate the refunds to eligible employers.

Rules adopted in 1991 allowed insurers to charge retrospectively rated policyholders a factor for the assessments paid to cover deficits in the state's residual market, the Texas Workers' Compensation Insurance Facility. The charge was optional for part of 1991 and was mandatory from 1992 to 1994.

The residual market's deficit, however, turned to a surplus for the underwriting year 1991 following reforms of the state's workers compensation system. The residual market has reported a surplus for each underwriting year since then.

The state insurance code requires that the residual market return premiums and surplus to insurers for the years that it generates a surplus, according to Nancy Moore, deputy commissioner at the Texas Department of Insurance.

The Workers Compensation Division wants insurers to share with policyholders some of the \$718.5 million returned to them. Since the policyholders would have been assessed additional premium had the fund suffered a deficit in those years, the policyholders should share in the refunds, the division says.

Insurers, however, contend that at least for the years 1991 and 1992 there should be no payments to retrospectively rated policyholders because the department had already barred the pass through of assessments or rebates for those years.

The department ordered that the factor for the residual market assessment for those years be zero, which insurers argue applies equally to shares of refunds as it does to assessments.

Risk managers that attended a hearing last week on the proposed rule "made it clear that they felt it was unfair that insurance carriers are keeping this money," said Frances C. Oliver, risk manager at Centex Corp. in Dallas.

Ms. Oliver said her employer, a residential and commercial construction company, is owed at least \$100,000 in premium refunds.

"My position is that there can be no doubt in anybody's mind that if there had been a shortfall, the insurance companies would not have waited four or five years to get the authority to pass those assessments along," agreed James E. Green, risk manager at Fort Worth-based Justin Industries Inc.

Mr. Green said he believes it is "fair and appropriate that insurance companies provide pro-rata refunds with reasonable interest to those of us who were taking the risk on the other side" by agreeing to pay an assessment if deficits were recorded.

He said Justin probably is owed around \$200,000 in refunds of residual market premiums.

Insurers claim adoption of the proposed rule in its current form is unfair and illegal.

To implement the rule would force undue hardship on Texas workers comp insurers and could throw the market into an availability crisis, John B. Lennes Jr., vp of the Alliance of American Insurers, said at last week's hearing.

"There is no basis, either in law or fact, for attempting to enact regulations that would undo a prior contract," Mr. Lennes said. "Adoption of the rule would violate sound public policy and applicable constitutional provisions."

"The Texas Department of Insurance should not attempt to change what was and is an equitable law and rule, reasonably applied to a crisis situation of multi-billion-dollar deficits," Mr. Lennes noted. "It makes no sense to mandate returns of surplus from the same overall transaction which will surely show a net deficit."

"Insurers paid over \$2 billion in deficit assessments to shore up the Texas workers compensation system," said Forrest C. Roan, Texas counsel for the American Insurance Assn. "They later got back \$718 million in surplus rebates

'For insurance companies that supported the Texas market during bad times, it would be unfair,' says Forrest C. Roan of the AIA.

from the facility, but that still leaves insurance companies \$1.285 billion in the hole" for the period 1985 to 1995.

The Texas Workers' Compensation Insurance Facility stopped writing coverage at the end of 1993 and is running off its business. It did show a surplus for 1994 for policies that expired in 1994.

It was replaced by the Texas Workers' Compensation Insurance Fund as the residual market in 1994.

Mr. Roan maintained that it would be inequitable to force insurers to share the refunds with policyholders.

"For businesses, getting these rebates would be a windfall," he testified. "For insurance companies that supported the Texas market in the bad times, it would be unfair."

The AIA, however, is not contesting payment of rebates to policyholders for 1993 and 1994, when insurers received \$149.6 million from the facility.

Mr. Lennes said the Alliance has "taken a position that goes a little bit further" and is contesting refunds to policyholders from underwriting years 1993 and 1994.

It would be illegal to retroactively impair contracts written in 1993 and 1994 between insurers and policyholders and formed under rules in place at the time, he argued. The rules that allowed insurers to pass through losses did not address returning surpluses to policyholders through rebates, he said.

Mr. Roan asked the Insurance Department to give insurers a reasonable time to comply if rebates are ordered.

The proposed rule would require insurers to calculate and return the premiums to employers within 90 days of the rule's effective date. Insurers also would be required to send the department a report listing all employers that received a refund, the amount and date it was sent. **BI**

Restaurant

Continued from page 2

York businessman Jerry Brody—is "completely insured" by Crum & Forster Corp. affiliates.

Loss adjusters visited the scene last week to begin working up an estimate of the loss, a Crum & Forster spokeswoman confirmed.

While a faint odor of smoke lingered in the terminal's lofty main concourse last week, the damage was confined to the lower level restaurant and some ductwork, the fire department spokesman said.

Grand Central, a 1913 Beaux Arts landmark, is undergoing a \$114 million renovation that includes new air conditioning and sprinkler systems; extensive rebuilding of ramps, escalators and retail space; and restoration of the terminal's 150 foot-high barrel-vaulted sky ceiling (BI, Feb. 27, 1995).

Officials of the Metropolitan Transportation Authority, Grand Central's operator

and manager of the renovation project, said the Oyster Bar fire has not exposed the MTA to any losses.

The renovation has proceeded while the terminal remarkably continues to handle half a million commuters a day, despite a huge interior scaffolding system and partial interior demolition that has rerouted corridors, closed stairways and relocated ticket booths.

Now added to the commotion will be reconstruction of the 84-year-old Oyster Bar.

Last week, most of the restaurant was a soot-blackened shell, its ceilings missing many terra cotta tiles and its floors littered with broken tile and glass.

Some areas escaped relatively unscathed, Mr. Abrahamson reported. The Oyster Bar Saloon, a small dining room at one end of the larger restaurant, suffered smoke damage but no other serious harm. Also, an "apartment" below the Oyster Bar that served as the restaurant's office was untouched, he said.

The kitchen, though, will have to be total-

ly rebuilt, and most of the tile-lined dining space repaired and refurnished after the fire consumed virtually everything in those rooms.

Gutted were the restaurant's main dining room, a bar area and an adjoining dining room whose serpentine lunch counters were crowded daily with hurried commuters and tourists.

The fire apparently caused no serious structural damage, and the toughest job, Mr. Abrahamson said, may be restoring the terra cotta-tiled ceiling to its original condition, a requirement of the city landmarks law.

"That's why I can't give you a (damage) estimate," he said. "That ceiling could cost a fortune."

Despite the building's age, though, the tile needed for the ceiling is "not uncommon," and similar tile has been used recently in other New York City restoration projects, including one at the city hall, he said.

Mr. Abrahamson said he hopes to have the Oyster Bar & Restaurant back in business within a month. **BI**



API/WIDE WORLD PHOTOS

Losses from last week's fire at the landmark Oyster Bar & Restaurant in New York are fully insured.

NIOSH

Continued from page 1

can be caused by non-work exposures."

The report shows the need for action now on an ergonomic standard to mitigate repetitive stress injuries, said Greg Watchman, acting head of OSHA in Washington. Mr. Watchman said the report provides "compelling evidence" of the linkage between workplace conditions and repetitive stress injuries and said OSHA still intends to issue a standard, though probably not until next year at the earliest.

OSHA has been under fire from business groups and some members of Congress for attempting to issue such a standard in the absence of ir-

refutable evidence that it is needed.

Rep. Henry Bonilla, R-Texas, has prepared legislation to block the imposition of any ergonomics standard until the National Academy of Sciences issues a report on the matter.

The AFL-CIO, which supports an ergonomics standard, welcomed the new report.

"I think it demonstrates the point that we've been making all along that repetitive strain injury is absolutely linked to and caused by workplace factors," said Keith Mestrich, occupational safety and health specialist with the AFL-CIO in Washington. But he added: "Is it going to quell the opposition? I doubt it."

Mr. Mestrich said he thinks the NIOSH study removes the need for further study before OSHA introduces a standard. "I'm not sure what

a study the NAS would do now, whether that's really needed," he said.

A spokeswoman for Rep. Bonilla said he will continue to seek an NAS study, a position that sits well with business groups that oppose OSHA imposing an ergonomics standard.

"I see no reason why the National Academy of Sciences should not have an opportunity to review the data. I would rather have two organizations separate and distinct saying the same thing before going ahead with a standard," said Lance Ewing, chair of the Risk & Insurance Management Society's Inc.'s health and safety committee and loss control administrator for the Philadelphia School District.

Mr. Ewing added that RIMS believes companies should address ergonomic problems on their own, and that those that haven't should do so in

order to be "one step ahead" of OSHA regulation.

"The problem with the NIOSH study is that it is not thorough and not complete. It overlooks a lot of important studies," said Peter Eide, manager-labor law policy for the U.S. Chamber of Commerce in Washington. Any standard "should be delayed pending a more thorough review of the literature by the NAS. Pending that, we think it's premature for OSHA or anyone else to be issuing any ergonomic standards," he said.

"Our initial reaction is that we want to go ahead and review some of the science ourselves," said David M. Farmer, senior vp-federal affairs in the Washington office of the Alliance of American Insurers.

"At first blush, we're highly skeptical of some of the conclusions in the

report. It is, we believe, of paramount importance that any rule or standard be based on absolutely sound science, because an improperly issued ergonomic standard could cost American employers millions and perhaps billions of dollars over time," he said.

He said the Alliance is "absolutely" in favor of conducting an NAS ergonomic study before anything more is done regarding an OSHA standard.

Free copies of "Musculoskeletal Disorders (MSDs) and Workplace Factors: A Critical Review of Epidemiologic Evidence for Work-Related Musculoskeletal Disorders of the Neck, Upper Extremity, and Low Back" are available from NIOSH at 800-356-4674. The report also can be accessed on the Internet at <http://www.cdc.gov/niosh>.

HMOs offer savings potential in work comp cases: Study

By ROBERT KAZEL

Employers can save 10% to 70% on workers compensation lost-wages expenses by contracting with health maintenance organizations, a new study says.

The average saving is 25.7%, the study says.

Companies also report workers comp medical savings of 10% to 40% when using an HMO as contrasted with fee-for-service providers, the report says, with an average medical saving of 24.6%.

The report, by Seattle-based consultant Milliman & Robertson Inc., said HMOs—especially the largest ones—continue to cast eager eyes on the workers comp market. Despite some employers' reservations, the trend is good news for buyers, according to the report.

Seven in 10 HMOs responding to a survey last year said they were active or planning to be active in workers comp products and services. That figure is slightly down from 1995, when 74% of HMOs reported to be poised for entry into workers comp. However, the industry still has penetrated this arena much more deeply than in 1994, when only half of HMOs reported they were interested in or had workers comp contracts.

A strong presence of managed care organizations in workers comp will not only save employers money but also will introduce more professionalism and efficiency into workers comp prac-

tices, said William L. Granahan, senior consultant in Milliman & Robertson's Boston office and co-author of the study. Doctors working under traditional fee-for-service reimbursement and indemnity health plans have had no incentive to return workers to the job, he said.

Seven in 10 HMOs said they were active or planning to be active on work comp products and services.

"The insurance company would (routinely) treat it as a monthly expense," he said. "We're getting a physician and a case manager involved within the first 24 hours. That's the ideal, anyway."

HMOs involved in workers comp on the whole are dedicated to "true injury treatment" and working much more closely with the patient than was the case under fee-for-service, Mr. Granahan said. In past years, and sometimes today where managed care is absent, doctors haven't asked patients if their injuries or illnesses were job-related, he said. "You have to understand the worker and what the employee does for a living, whether they mop floors or lift boxes or run a machine," he said.

Today's doctors also must understand if transitional work or

light-duty programs are available at the patient's worksite and not assume that absence from the job is automatically necessary, he said.

The authors acknowledge the fears of some employers that managed care might give physicians an incentive to spend little on tests or treatment of workers comp patients, but to send them home for long recuperation periods anyway. There is no evidence this has been the case for managed care cases, the study says.

Despite the significant numbers of HMOs moving into workers comp, the report expressed surprise that more aren't doing so, especially medium-size companies. Mr. Granahan characterized HMOs in general as "novices" when it comes to knowing how to make money in the workers comp arena. The exceptions are the largest HMOs that have targeted large, self-insured employers as potential clients. Last year, a quarter of HMOs active in workers comp had 250,000 or more members, in contrast to 10% two years ago, the report said.

The study speculates that other opportunities in managed care, such as Medicare risk, may be drawing the attention of some plans away from workers comp.

Single copies of the study, "Report on Third Annual Milliman & Robertson Survey: HMO Managed Workers' Compensation Strategies and Products," are available by contacting Mr. Granahan, 617-245-4847.

Preventive

Continued from page 2

could be driving down prices so low that providers can't afford such activities.

In the Twin Cities area, 26 large employers purchase health insurance together through the Buyers Health Care Action Group, which has attained significant clout in negotiating better health insurance rates with local managed care plans.

"Although these actions are being taken to set the stage for better health care in the future...the fiscal pressures generated by the consortium have led many clinics to feel the need to devote almost all of their attention to maintaining solvency," the article's authors wrote.

While not disputing that physicians should devote more attention to prevention, Steve Wetzell, executive director of public policy and public affairs for BHCAG, called the allegations against the coalition unfair.

"We weren't surprised at the conclusion, but we were really surprised they pointed the finger at us," he said. "We think there's absolutely no truth to it."

The study was based on patient data from 1994, a time when providers could obtain virtually all the funding they wanted for preventive services through BHCAG plans on a fee-for-service basis.

"There was absolutely no incentive to under-serve our population on preventive service," Mr. Wetzell said.

Today, clinics contracting with the BHCAG are organized into "care systems" that submit budgets to the coalition, which sets fee schedules for each group of providers. Depending on whether the budget is approved, clinics may or may not receive all the money they request for preventive services, he said.

BHCAG will try to encourage preventive care by approving as much

funding as possible toward this goal; by surveying patients on their satisfaction with preventive care and publishing the results; by continuing to distribute a brochure on preventive care to doctors; and by recognizing providers with good preventive care programs through marketing and cash rewards, Mr. Wetzell said.

BHCAG employers represent only about 5% of the population served by clinics in the study reported by Mayo, so it is tenuous to draw conclusions about how the consortium affects the overall region, he said.

Also playing down the importance of BHCAG in weakening preventive care was Dr. Leif Solberg, clinical director of research at Group Health Foundation, the research group owned by Bloomington, Minn.-based HealthPartners, a leading managed care plan in the region.

HealthPartners and Blue Plus, another managed care network serving Minnesotans, are overseeing the study of preventive care with a \$3.5 million federal grant, and Dr. Solberg co-wrote the Mayo article.

"I'm sorry we even mentioned that in there," he said, apologizing for the reference to the coalition's influence. "I think all (the article) was trying to say was primary care physicians are feeling a lot of time and cost pressures."

Fewer than 10% of patients responding to the survey talked about flu shots with their doctors, and one in three said their doctors did not discuss any preventive services at their last clinic visits, the study found. Only 20% received any written materials about preventive care, and just 1% received written information on flu shots.

The study said clinics know how to use patient data for billing but have less experience using it for preventive purposes.

More current data will be available in about six months, Dr. Solberg said. **BI**

MEWAs

Continued from page 1

ment Income Security Act pre-empts state rules and laws that "relate" to employee benefit plans. But ERISA pre-emption is largely irrelevant to smaller companies because they typically buy health care plans from insurers, which must abide by state rules and requirements.

Backers of the legislation—mainly small-business groups—say the measure, if enacted, promises to give small employers the same purchasing clout as bigger companies while freeing them of state mandates.

"Frankly, we have not heard of a better idea. We are giving smaller firms the same health care purchasing benefits that larger companies now enjoy. This is a way to make health insurance more affordable for smaller companies and their employees," said Leslie Pryor, senior director of government relations with the National Assn. of Wholesaler-Distributors in Washington.

But critics of the legislation, mainly insurers and state regulators, worry that the legislation would undo decades of state regulation of health insurance and place it in the hands of the federal regulators, who critics say lack experience in regulating health care arrangements.

"We are very concerned about whether the federal government has the necessary resources" to regulate these programs, said Susan Nestor,

executive director of policy for the Blue Cross & Blue Shield Assn. in Washington.

Others say trade associations lack experience in running and administering self-insured health care programs, and that—combined with a lack of continuous federal oversight—could lead to a rash of health care plan failures.

"This would be a sideline for trade groups. Yet, there is nothing in the legislation about ongoing monitoring of these plans," says Marianne Miller, director of policy development at the Health Insurance Assn. of America in Washington.

Supporters and opponents of the proposal, which was advanced by Rep. Harris Fawell, R-Ill., and inserted into tax legislation passed by the House, also differ on whether the final tax bill will include the provision. The Senate bill lacks a comparable provision.

"There is not that much interest in the Senate in doing this," said Ms. Nestor.

But George Pantos, Washington counsel for the Self Insurance Institute of America, a trade group primarily representing third-party claims administrators, says support for the measure is broad and bipartisan.

"I'm encouraged about the possibility of getting the legislation through this time," Mr. Pantos said.

To set up an AHP, a trade association would have to be in existence for at least three continuous years

and organized for a purpose other than providing health care benefits to members.

Under the legislation, a self-insured AHP would be required to maintain surplus that is the greater of:

- 25% of the benefit liabilities expected to be incurred for which the risk of loss has not been transferred and 25% of expected administrative costs. Or:
- \$400,000.

In addition, self-insured AHPs would have to purchase aggregate stop-loss insurance with an attachment point not greater than 125% of expected claims.

The Labor Department would have responsibility for regulating the AHPs, though it could delegate that authority to the states.

Aside from giving trade associations new authority to establish AHPs, the legislation also would set new rules aimed at cracking down on "bogus unions" that set up employee benefit plans and claim to be collectively bargained multiemployer plans protected from state regulation by ERISA pre-emption.

In order to be a protected arrangement, a multiemployer plan could not utilize insurance agents or brokers to solicit or enroll members, and at least 85% of the participants must be current or former employees of the sponsoring employee organizations or employers who are parties to the collective bargaining agreement. **BI**

Welfare

Continued from page 1

employment insurance director of New York.

He arrived at that figure by using the percent of fraudulent unemployment insurance cases in New York over the past five years, 1.67%, and multiplying that by the amount paid in the state for workers comp benefits, \$3.5 billion a year.

"But the initial years' impact would be an order of magnitude higher than that," he said, because the fraud detected the first few years would include fraud that occurred in previous years.

Not everyone envisions savings to the extent Mr. Buse does.

One drawback of the law, according to a spokeswoman for ITT Hartford Group Inc., is that insurers and self-insured companies don't have direct access to the data. And in states where the state agency is not yet actively involved in compiling the information, the federal law does not say what an insurer or employer can do to obtain the data.

David Farmer, senior vp with the Alliance of American Insurers in Washington, said the savings won't be so great initially, but the law will be of some help. "The overall impact will be small on workers comp fraud," he said.

Under the law, each state must pass its own implementing legislation that as of Oct. 1 would require employers to provide the name, address and Social Security number of every employee hired, within 20 days of their start dates. Previously, the only information available to workers comp agencies in every state were quarterly reports of people receiving wages. Some states, however, already have established their own directory of new hires that has been made available to the workers comp agency.

In Maryland, a state law that passed in 1996, prior to the federal law, requires employers to report all people hired after July 1. Susan Bass, head of policy and planning for the Maryland Office of Unemployment Insurance in Baltimore, said the laws will be a tremendous help in reduc-

ing unemployment insurance fraud. Her department plans to cross-match data on the directory of new hires with those receiving unemployment benefits and investigate those people who appear on both lists.

Less activity is taking place to prevent workers comp fraud.

The chairman of the Maryland Workers Compensation Commission, Charles Krysiak, said he is not familiar with either the Maryland or federal law. He said it's the responsibility of the insurance company making the workers comp payment to investigate any possible fraud.

"It's not within our purview," he said.

In Minnesota, which also started a

Terminating benefits to fraudulent recipients could save as much as \$59 million a year in New York, Frederick Buse says.

state program as of July 1, the workers comp agency plans to utilize the new directory but doesn't expect it to have a significant impact.

The new law "is an effective tool," but it won't significantly reduce fraud in Minnesota, said Jim Feckey, director of the Investigative Services Unit for the Minnesota Department of Labor and Industry in St. Paul.

Since 1994, the workers comp agency has had access to the state's list of people receiving wages. This has had "a definite effect" on the agency's ability to track down fraud, he said, adding that he doesn't expect the new registry to add to their investigative resources. "It's too early to say, but I don't see how the new hire reporting requirement will change anything," he said.

The new law does offer a timing advantage, he said. Now they will receive notice of the hiring within 20 days, whereas under the old system it was done every three months.

The administrator for Wisconsin's workers compensation division, Gregory Krohm, said he was unaware of the new law. He added that he does-

n't think it will help much in reducing fraud in Wisconsin, because 75% of that state's fraud is comprised of people claiming out-of-work injuries occurred on the job or of people collecting benefits as they continue some type of self-employment.

Compliance by employers may be a problem under the new law, Minnesota's Mr. Feckey suggested. Under the system in place since 1994, employers had to report every employee or face criminal penalties. The federal law says states may impose a maximum of a \$25 penalty on an employer who fails to report a new hire. This penalty can increase to \$500 if the failure to report is a conspiracy between the employer and employee.

Another problem with the information is that "just knowing the guy is working does not mean there is fraud," Mr. Krohm noted, because people prohibited from certain types of work because of an injury still can work at less physically demanding jobs.

However, Mr. Buse, the insurance consultant, countered that knowing someone is working does cut down on fraud because workers comp benefits are reduced when the worker starts earning a salary again. "This might adjust" his projected \$59 million savings for New York "downward by a little, but not by much," he said.

Some states are viewing the law optimistically.

In Ohio, the Bureau of Workers' Compensation is establishing a system to retrieve data from the soon to be created directory, a spokesman for the bureau said. Since 1993, the bureau has had access to other state-gathered information to prevent deceased or imprisoned people or their relatives from collecting workers comp, but the new directory "will add another tool to our belt in trying to stop people from stealing from the system," the spokesman said.

The AAI's Mr. Farmer said the issue has received relatively little attention in the insurance community. His organization has only begun to look at the issue within the last month. "It slipped by us," he said. "This was one we didn't focus on at the time" it became law. **BI**

Updates

Lloyd's Council picks Taylor

Continued from page 2

who will retire at the end of this year.

While he has been selected by the Council members, Mr. Taylor must still be elected to the Council by working members in the fall elections to take up the three-year post as of 1998. The Lloyd's Act 1982 requires that the chairman must be a working member of Lloyd's elected to the Council, and Mr. Taylor is not a member of the Council.

Council elections will be held early in November to replace working members Sir David and broker Graham McKean. Typically several candidates run for each slot and Mr. Taylor will be among the candidates.

Mr. Taylor has spent his working life with Willis, joining 27 years ago as a junior aviation broker. In 1990 he was appointed to the board of Willis Faber P.L.C., shortly before its merger with U.S. broker Corroon & Black Corp. After the merger, he became a director of Willis Corroon Group P.L.C.

Currently, Mr. Taylor is chairman of the Lloyd's Insurance Brokers' Committee, and is a director of the World Insurance Network.

State settles tobacco suit

JACKSON, Miss.—Mississippi's settlement of its lawsuit with the tobacco industry could lead other states to strike similar deals before Congress approves a proposal that would settle all the claims of states that have sued.

Mississippi last week agreed to settlement terms that will ensure it receives more than \$3 billion to resolve its lawsuit seeking to recover the state's cost of treating smokers' illnesses regardless of whether the national proposal is approved.

The tobacco industry was facing a trial scheduled to begin this week in Mississippi.

Under the proposed national settlement worked out last month, the tobacco industry would pay more than \$360 billion to 40 litigating states over 25 years to recover the costs of paying for health care for smoking-related illnesses (*BI*, June 23). If the proposed national settlement is approved, it would supersede the Mississippi settlement.

In Florida, where an August trial is scheduled, talks have begun between the state and the tobacco industry regarding settlement of that state's claims, according to a spokesman for the Florida Attorney General's office.

Meanwhile, the industry is facing a class-action lawsuit from two multi-employer health plans covering workers in two Connecticut unions.

"We're seeking basically the same thing and to recover our costs in treating tobacco-related diseases" as are the state suits, said Robert Connerton, a partner with Washington law firm Connerton & Ray and co-counsel for the plaintiffs.

Two Stockton Re execs leave

HAMILTON, Bermuda—Finite risk reinsurer Stockton Reinsurance Ltd. lost two senior underwriters last week.

Richard Black and Michael Cascio, who were instrumental in setting up Stockton in 1994, both voluntarily resigned for undisclosed reasons.

Stockton President Thomas F. Dailey indicated the two vps were in dispute with Stockton top executives over the underwriters' relations with the company.

"Most business disputes are over positions or money, aren't they?" he asked rhetorically.

He added that there was "no way that the company was displeased" with the performance of Messrs. Black and Cascio.

Mr. Black said he and Mr. Cascio had no immediate plans to join or establish another company. "We'll be taking the summer off," he said.

Messrs. Black and Cascio helped set up Stockton Re in 1994, when they both left their jobs at Centre Reinsurance (Bermuda) Ltd. to join the new company (*BI*, Aug. 15, 1994).

Stockton, which is backed by Commodities Corp., a Cayman-registered asset management firm based in Princeton, N.J., is now an established finite risk reinsurer with \$134.4 million in profits for 1996, compared with \$25.5 million in 1995.

Chris Nelson will take over as acting head of underwriting, and additional staff members likely will be recruited, Mr. Dailey said.

Briefly noted

Mellon Bank Corp. of Pittsburgh said it paid \$225 million to acquire **Buck Consultants Inc.** in a deal that was completed last week. New York-based Buck, which in 1996 was the world's eighth-largest benefits consultant, will continue to operate under its own name. . . **David Strauss**, currently deputy chief of staff for Vice President Al Gore, was named last week to be the new executive director of the Pension Benefit Guaranty Corp. . . U.S. Supreme Court Chief Justice William Rehnquist appointed U.S. District Judge Sam C. Pointer Jr. of Birmingham, Ala., to hear all federal **breast-implant product liability** cases against Dow Chemical Co. and Dow Corning Corp., a joint venture of Dow and Corning Inc. The appointment does not apply to cases against other defendants, such as Baxter International Inc., Bristol-Myers Squibb Co. and Minnesota Mining & Manufacturing Co. Meanwhile, in Detroit, U.S. Bankruptcy Court Judge Denise Page Hood has overturned a March 1996 ruling in Dow Corning's bankruptcy case to disband a lawyer-dominated committee to represent the interests of implant recipients. . . **Workers compensation rates in Vermont** have dropped an average of 14%, the third consecutive year comp rates have fallen in the state after three consecutive years of increases in 1992 through 1994. . . Children living near power lines are no more likely to develop childhood leukemia than those who do not, according to a survey released last week by the National Cancer Institute. The survey followed a comprehensive study released by the National Academy of Sciences last year that showed no link between **electromagnetic fields** and all forms of cancer except childhood leukemia (*BI*, Nov. 4, 1996). The NAS study said previous surveys could not categorically rule out a link between EMFs and the childhood disease.

Ticker

Charting impact of mergers on stock

By MYRON M. PICOULT
Special to Business Insurance

The long-awaited consolidation of various segments of the insurance business has clearly begun. Merger and acquisition activity is widespread as one surveys the property-liability, life and reinsurance landscapes.

The likelihood is that M&A activity will continue to proliferate in the insurance industry as a whole, as profitability declines and other financial service companies expand into the insurance sphere.

The pressure to achieve critical mass in various business segments and the need for more efficient and effective distribution are the primary drivers behind the current level of M&A activity. Put another way, managements are under enormous pressure to compete, but many companies have limited abilities. Hence, mergers and acquisitions may be the only means to achieve the ends. Acquisitions, though, should be a supplement to growth and not the primary reason for an insurance company's growth.

The dynamics in the insurance industry are very similar to what the banking industry faced several years ago when the market was plagued by overcapacity and several key players began to recognize the benefits of consolidation.

M&A activity falls into two basic spheres, strategic and financial. Some of the strategic reasons for acquisitions include:

- The need to diversify into new markets and/or geographic areas.
- The pressure to find alternative means of distribution.

- The need to obtain new products, skills and technological expertise.
- The need to follow your customers as globalization pressures rise.
- The need to divest or spin off a business segment to focus on a core business.

Some of the financial reasons for M&A activity include:

- The need to achieve economies of scale in order to squeeze out inefficiencies.
- The need to expand market share and presence in current lines of business and geographic areas served.
- The need to strengthen balance sheets and stave off rating downgrades.
- The need to produce growth in a stagnant or declining market.
- The need to respond to shareholder pressures to raise returns on equity and make use of excess capital.

It should be emphasized that the integration of two entities as business segments is not always as smooth as peaches and cream. Obstacles to a seamless merger or acquisition include: loss of employee focus; roadblocks emanating from entrenched managements; difficulties in blending different corporate and/or business cultures; and problems related to incompatible systems and processing technologies.

Last but not least, the need to produce quick financial returns can drive decisions that ultimately create longer-term problems.

As we have noted in past writings, growth prospects in virtually all segments of the insurance business have stagnated. Compounding the situation are, first, an abundance of capital

and/or "stock currencies" that are at levels either not seen in a long time or on new plateaus and, second, enormous pressures on management teams to produce top-line growth, bottom-line growth and raise ROEs.

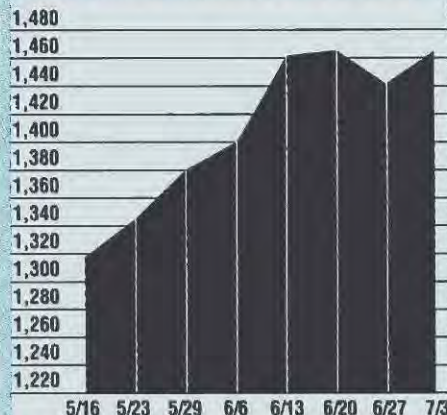
This consolidation undercurrent is threaded through virtually every insurance stock and will likely remain notwithstanding the prospect of some earnings disappointments. It should be noted that there is a greater likelihood for an acquirer to stub its toes when it is forced to make an acquisition vs. those situations when acquisitions are done at a more rational pace.

Finally, as previously noted, insurance stock valuations are at levels some might refer to as nosebleed territory or certainly well above levels most industry observers would have prognosticated several months ago. Given current valuations, it would appear that the opportunities for management buyouts and leveraged financial buyers appear limited. Today's opportunities appear to be more aligned for strategic buyers that can create value through synergies.



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BI Insurance Index



Base=100 on Dec. 29, 1978
Source: Nordby International Inc.

PCS catastrophe options

As of July 3

Call spread	Price bid/ask	Call spread	Price bid/ask
Eastern September 1997			
40/60	3.2/3.8	California Annual 1997	
60/80	2.0/3.5	40/60	5/2.0
80/100	1.5/1.8	80/100	—/1.3
National Annual 1997			
80/100	4.0/4.5	Western Annual 1997	
120/140	—/5.0	40/60	8/2.6
		70/90	—/1.6
Southeast September 1997			
40/60	2.5/3.5		
60/80	2.2/2.5		
80/100	5/1.9		

Total volume: 1,368 Total open interest: 14,706

For information on PCS cat options, call the Chicago Board of Trade at 312-435-3674.

Source: Chicago Board of Trade

Two-thirds of insurers carry 'secure' ratings: S&P

NEW YORK—New claims-paying-ability ratings indicate that the U.S. and Canadian life/health insurance industry in general is strong, but Standard & Poor's Insurance Rating Services maintains a "neutral to slightly negative outlook" for health and disability insurers.

New York-based S&P on July 1 rated 1,087 life/health insurers and determined that 729, or 67%, are secure. They represent 97%, or \$1.83 trillion, of the rated companies' \$1.9 trillion of assets. S&P rated the remaining 358 companies as vulnerable. They represent 3%, or \$56.74 billion, of the rated companies' assets.

The secure to vulnerable ratio is comparable to last year's.

Among the 1,087 rated companies, S&P issued 763 quantitative ratings, which are denoted by a

"q" after the ratings. A quantitative rating means S&P relied solely on the financial data the companies submitted in their 1996 annual statements to regulators.

Of those companies, S&P rated 421, or 55.2%, secure. They represent 77%, or \$178 billion, of the assets of companies in that rating category.

For the first time, S&P assigned its highest possible quantitative rating, Centurion Life Insurance Co., a Missouri-domiciled captive of Norwest Financial Services Inc. of Des Moines, Iowa, earned an AAAq, or superior, rating.

S&P rated the remaining 342 companies with quantitative ratings as vulnerable. They represent 23%, or \$54 billion, of the assets of companies in that category.

Of the 309 insurers that sought interactive rat-

ings, S&P rated only one as vulnerable. An interactive rating couples an insurer's financial data with information S&P derives during interviews with insurer management.

S&P's less than optimistic outlook for health insurers is based on the competition that continues to dog that segment. As the shift to managed care continues faster than expected, insurers are building and trying to maintain market share.

Poor morbidity rates on business written during the 1980s continues to hurt disability insurers as well. But, downgrades in that segment will be tempered somewhat by strengthened underwriting, improved products and industry consolidation and restructuring, S&P said.

S&P plans to publish the ratings this summer.

—By Dave Lenckus

British Issues

July 2	Price	P/E	Div.	Yield	52 week
Companies					
Comml Union	688	10.8	30.3	5.5	764—550
Genl Accident	930	6.7	34.3	4.6	978—614
Gdn Royal Exch	279	5.7	10.0	4.5	311—227
Independent	890	11.1	13.3	1.9	895—456
Royal & Sun	474	14.1	19.0	5.0	529—357
Brokers					
Bradstock	83	11.8	6.4	9.9	90—54
CE Heath	139	NA	1.5	1.4	140—74
Lmbrt Fenchurch	123	NA	8.4	9.9	137—101
Lloyd Thompson	176	NA	NA	NA	206—163
Nelson Hurst	130	11.9	8.6	8.3	203—121
Sedgwick Grp	128	11.0	8.9	6.9	144—115
Steel Bri Jones	31	10.8	1.5	6.0	42—22
Willis Corroon	139	11.1	6.6	5.9	165—117

Source: Nordby International Inc.

BI Industry Stock Report JUNE 30, 1997, THROUGH JULY 3, 1997

BROKERS							INSURERS/REINSURERS							HEALTH MAINTENANCE ORGANIZATIONS									
Company	Price	Weekly % change	Year to date % change	Year to date High	Year to date Low	Vol.(000)	Company	Price	Weekly % change	Year to date % change	Year to date High	Year to date Low	Vol.(000)	Company	Price	Weekly % change	Year to date % change	Year to date High	Year to date Low	Vol.(000)			
Acordia Inc.	NYS	39.88	0.00	37.50	40.13	27.25	65	Enhance Financial Services	NYS	44.38	1.43	21.58	45.19	26.50	122	St. Paul Companies	NYS	80.50	4.04	37.31	80.50	50.63	828
E.W. Blanch Holdings Inc.	NYS	27.75	5.21	37.89	27.75	17.75	197	Everest Reinsurance	NYS	38.00	0.33	32.17	40.25	22.50	714	SCOR	NYS	40.50	-0.46	17.82	43.50	34.00	111
Gallagher Arthur J. & Co.	NYS	35.75	1.24	15.32	37.75	29.13	180	Executive Risk Inc.	NYS	51.50	-1.67	39.19	56.38	33.38	61	SAFECO Corp.	NDO	47.63	1.33	20.76	49.38	32.00	1,122
Hib, Rogal & Hamilton	NYS	16.63	-1.85	25.47	17.25	11.38	91	EXEL Ltd.	NYS	55.69	7.35	47.03	55.69	31.75	357	Selbels Bruce Group	NDO	7.81	2.46	-5.30	11.25	5.88	3
Keye Group Inc.	NDO	5.13	5.13	-2.38	7.00	4.38	37	Framont General Corp.	NYS	40.00	3.39	29.03	40.25	21.50	334	Selective Ins. Group	NDO	52.00	6.67	35.84	52.00	31.00	66
Marsh & McLennan	NYS	74.00	1.20	42.31	75.25	44.00	1525	Frontier Insurance Group	NYS	65.06	0.48	-70.10	65.50	32.63	223	Sphere Drake Holdings	NYS	8.63	-0.72	-2.82	10.50	8.13	273
Poe & Brown	NDO	36.00	1.41	35.85	37.50	23.50	61	Gainco Inc.	NYS	9.38	4.17	-2.60	10.88	8.13	280	TIG Holdings	NYS	31.69	-0.78	-6.46	38.00	26.38	793
BROKERS AVERAGE							INSURERS/REINSURERS AVERAGE							HEALTH MAINTENANCE ORGANIZATIONS AVERAGE									
1.76							27.42							1.82									